NEW SHIP CONSTRUCTION

UNIVERSITY
OF MICHIGAN
JUL 16 1956
MAIN
READING ROOM

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE UNITED STATES SENATE

EIGHTY-FOURTH CONGRESS

SECOND SESSION

ON

ORE VESSEL CONSTRUCTION

AND

S. 3108

A BILL TO ENCOURAGE THE CONSTRUCTION OF MODERN GREAT LAKES BULK CARGO VESSELS

MARCH 14 AND APRIL 16, 1956

Printed for the use of the Committee on Interstate and Foreign Commerce

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CONTENTS

MARCH 14, 1956

Page

Statement of—
- Cooley, Victor E., Deputy Director, Office of Defense Mobilization, representing Arthur S. Flemming, Director, Washington, D. C.... 24
- Ford, Walter C., Deputy Maritime Administrator (accompanied by Thomas E. Stakem, Jr., Assistant Deputy Maritime Administrator), Department of Commerce, Washington, D. C.... 2
- Good, Vice Adm. Roscoe F., Deputy Chief of Naval Operations (Logistics), United States Navy, Washington, D. C.... 26
- Haddock, Hoyt S., executive secretary, AFL-CIO Maritime Committee, 132 3d Street SE., Washington, D. C.... 33
- Moody, Joseph E., president, Southern Coal Producers Association, Southern Building, Washington, D. C.... 30
- Stuart, James B., president, American Tramp Shipowners Association, Inc., 11 Broadway, New York, N. Y.... 13

Statements submitted by—
- Bailey, Frazer, 850 Powell Street, San Francisco, Calif.... 46
- Haddock, Hoyt S., executive secretary, AFL-CIO Maritime Committee.... 34
- Industrial Union of Marine and Shipbuilding Workers of America, AFL-CIO.... 40

Letters from—
- Landry, George A., Assistant Director, Office of Assistant Director for Production, Office of Defense Mobilization, Washington 25, D. C., dated March 13, 1956.... 25
- Morse, Clarence G., Maritime Administrator, Department of Commerce, Washington, D. C., dated December 1, 1955.... 9

APRIL 16, 1956

Statement of—
- Ford, Walter C., Deputy Maritime Administrator, Maritime Administration, Department of Commerce, Washington, D. C.... 55
- Pardee, Franklin G., president, Lake Superior Iron Ore Association, Hanna Building, Cleveland, Ohio.... 97
- Prince, Gregory, general solicitor, Association of American Railroads, Transportation Building, Washington, D. C.... 102
- Sanford, L. R., president, Shipbuilders Council of America, 21 West Street, New York, N. Y.... 75
- Spencer, Lyndon, president, Lake Carriers' Association, Cleveland, Ohio, (accompanied by Gilbert R. Johnson, counsel).... 61
- Wilber, Glenn C., assistant general counsel, Chesapeake & Ohio Railway Co., Ludington, Mich. (accompanied by Gilbert A. Schuessler, general attorney for Wabash Railroad, and L. H. Kent, past superintendent of steamships).... 118

Statements submitted by—
- Baumhart, Hon. A. D., Member in Congress from the 13th District of Ohio, House of Representatives, Washington, D. C.... 53
- Cederberg, Hon. Elford A., Member in Congress from the State of Michigan, House of Representatives, Washington, D. C.... 129
- Kearns, Hon. Carroll D., Member in Congress from the 24th District of Pennsylvania, House of Representatives, Washington, D. C.... 92
- Minshall, Hon. William E., Member in Congress from the 23d District of Ohio, House of Representatives, Washington, D. C.... 91

	Page
Letter from—	
Bender, Hon. George H., U. S. Senate	117
Johnson, Gilbert R., counsel, Lake Carriers' Association, 1208 Terminal Tower, Cleveland 13, Ohio	131
Wilber, Glenn C., assistant general counsel, Chesapeake & Ohio Railway Co., Ludington, Mich	130
Resolution from—	
Great Lakes Harbors Association	96
Reports from—	
Department of Commerce	94
Department of the Treasury	94
General Accounting Office	92
Interstate Commerce Commission	94

DEPOSITED BY THE
UNITED STATES OF AMERICA

NEW SHIP CONSTRUCTION

WEDNESDAY, MARCH 14, 1956

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The subcommittee met, pursuant to notice, at 2:10 p. m., in room G–16, United States Capitol, the Hon. Warren G. Magnuson (chairman), presiding.

Present: Senator Magnuson (chairman).

The CHAIRMAN: The committee will come to order.

The Chair would like to read a brief statement on the matter of this ore vessel construction and the purpose of this hearing for the record.

Today's hearing involves a matter of national policy that could be of great significance to the future security of our Nation. Mineral ore importations will, more and more in the years ahead, furnish the basic supplies for the steel plants upon which both national prosperity and wartime armament production depend. Without a guarantee of adequate vessels to carry the millions of tons of ores from foreign sources that will be required in increasing quantities as our future reserves are further depleted, our country might be imperiled in any future war.

So, the result is we have asked the responsible Government agencies to send representatives to confer with us today because we are convinced that the situation with regard to ocean ore transportation is so far out of balance as between United States and foreign shipping as to constitute a serious threat in any future emergency or even to our economy in peacetime.

Figures for 1954 show that less than one-third of all ore imports, and little more than one-half of all iron ore imports, are carried in vessels of United States registry. If one American steel company which is bringing in the vast majority of the ore carried under our flag decides, as has been rumored, to effect the huge savings possible by using foreign-flag ships, American shipping participating in this trade will then drop to a figure almost negligible. Ominous, too, is the fact that ore carriers to the value of several hundred million dollars are being constructed in foreign yards by United States interests for registry and operation under foreign flags, with foreign crews, while practically no new construction is occurring for operation under our flag.

Defense officials with which we have conferred have assured me that this situation offers no significant hazard to our national defense planning because of the probable availability of some 377 vessels of the flags of Panama, Liberia, Honduras, and Venezuela which are con-

sidered to be under effective United States control. That is their statement. I do not see how we can sit by and agree with such an estimate, but even assuming that the crews are, as the Defense statement to me declares, from nations which are "members of NATO, or are traditionally friendly to the United States," would not our vital lifeline of iron ore imports be vastly more secure in time of urgent need, if we had a great deal more American vessels in this trade, manned by American crews of whose loyalty there would be no doubt.

I hope that we may be able to find in our laws, or devise new legislation to afford, ways and means to encourage ore carriers under the American flag to construct and operate carriers for these strategic materials.

It may sound repetitious to some to stress the fact that the American merchant marine is our fourth arm of defense, but I think we will not be able to serve the Nation's needs in an atomic war unless we can find, in my opinion, some method or encouragement or incentive or legislation to take care of development of our ore carriers.

So, that is the purpose of this hearing. We hope at least to highlight the situation and pinpoint it to that extent that we might get some results from it.

We have listed as witnesses the Maritime Administration. Admiral Good is here, I believe, and he is Chief of Naval Operations for Logistics; Mr. Stuart, president of the Tramp Shipowners, Mr. Moody of the Southern Coal Producers, and also Mr. Cooley, Deputy Director of ODM who is going to represent Arthur Flemming in these hearings.

I understand that Mr. Ford will testify for the Maritime Administration. We will be glad to hear from you, Mr. Ford.

STATEMENT OF WALTER C. FORD, DEPUTY MARITIME ADMINISTRATOR, ACCOMPANIED BY THOMAS E. STAKEM, JR., ASSISTANT DEPUTY MARITIME ADMINISTRATOR

Mr. FORD. Mr. Chairman, would you like me to start with my statement?

The CHAIRMAN. Go ahead.

Mr. FORD. The United States is vitally concerned with the problems of iron ore transportation. In the Great Lakes area this transportation is important to the welfare of the United States. In peacetime it is conducted principally by water at very low cost. In wartime the movement of iron ore over the Great Lakes is important because the route is less vulnerable to enemy attack.

The United States also is vitally concerned with the necessity of maintaining the most economical form of transportation of ores imported from foreign sources in peacetime and with the best method of protecting that transportation system in time of war. Our interest in the movement of imported iron ore is better understood when it is realized that by 1975 more than one-third of our iron ore needs are expected to come from foreign sources by means of oceangoing vessels.

Most of the iron ore consumed by the United States prior to 1950 was obtained from United States sources located in the Lake Superior area.

In 1950, this country consumed about 130 million tons of iron ore, of which about 91 million tons came from the Lake Superior area. In 1975, our consumption of iron ore is expected to increase to 200 million tons, or about 70 million tons more than was consumed in 1950. There is little prospect that other regions in the United States can contribute substantially to meet these increased requirements. As a result, the United States steel industry must depend increasingly upon deposits of lower grade ores located around Lake Superior and upon imports for future additions to the supply of ore.

Since Lake Superior mines are expected to produce in the future only about as much as they are now producing, most of our increased iron ore requirements must be obtained from foreign sources.

There is attached a table which was published by the Department of Interior, Bureau of Mines, which indicates the imports and the usage of ores from 1950 to 1975.

(The table referred to above is as follows:)

TABLE 1.—*United States iron ore imports—Actual and estimated*

[In millions of long tons]

Year	Total	Labrador	Other Canada	Venezuela	Africa	Other Latin Americas	All other
1950	8.2	----------	1.9	----------	0.9	3.4	2.0
1951	10.1	----------	2.0	0.6	1.0	4.0	2.5
1953	12.0	----------	2.0	3.0	2.0	3.0	2.0
1955	23.0	5.0	5.0	6.0	3.0	2.0	2.0
1960	45.0	15.0	8.0	13.0	4.0	3.0	2.0
1965	53.0	20.0	8.0	15.0	5.0	3.0	2.0
1970	68.0	30.0	8.0	20.0	5.0	3.0	2.0
1975	68.0	30.0	8.0	20.0	5.0	3.0	2.0

Mr. FORD. Fortunately from a national security point of view, the bulk of the imported iron ore will come from two nearby friendly countries, Canada (Labrador) and Venezuela. However, a substantial quantity is expected to be imported from Brazil, Sweden, the West Coast of Africa, and the west coasts of Latin America and Mexico.

There is also attached table 2 which was obtained from the President's Territorial Policy Commission, dated June 1952.

(The tables referred to above are as follows:)

TABLE 2.—*United States iron and steel production, consumption of materials, and capacity in 1950 with estimates for 1975*

[Million short tons]

	1950	1975
PRODUCTION		
Crude products:		
Steel mills—ingots and steel for castings	96.8	150
Foundries—rough castings	23.0	35
Total crude products	119.8	185
Finished products:		
Steel mills—including steel castings	72.2	112
Foundries—finished iron castings	15.3	23
Total finished products	87.5	135
CONSUMPTION OF MATERIALS		
Home scrap	35.9	60
Purchased industrial scrap	10.9	15
Purchased obsolete scrap	22.0	32
Total scrap	68.8	107
Pig iron	65.0	100
Iron ore (assuming 50 percent recoverable iron)	130.0	200
Blast furnace and foundry coke	64.4	90
Limestone	33.5	50
CAPACITY		
Steel ingots	100.0	160
Blast furnaces	71.5	100
Byproduct coke ovens	72.5	100

Source: Figures for 1950 are from American Iron and Steel Institute, "Annual Statistical Report, 1950." Figures for 1975 production are based on "Projection of 1975 Materials Demand," plus an allowance for direct and indirect exports; other figures are derived from these estimates of production by employing conversion factors based on annual reports of American Iron and Steel Institute, Institute of Scrap Iron and Steel, Bureau of Mines, Bureau of the Census, and reported experience of iron and steel foundries.

TABLE 3.—*Reserves of iron ore in the United States*

[Billion long tons]

Region	50 percent iron and over	35 to 50 percent iron	25 to 35 percent iron	Total
Lake Superior	1.6	2.5	60.0	64
Northeast			3.0	3
South		1.8	9.5	11
West	.5	.1	.2	1
Total	2	4	73	79

Since estimates have a crude margin of error, totals are expressed in round numbers.

Source: U. S. Geological Survey and Bureau of Mines.

Mr. FORD. A large fleet of specialized ore carriers has been developed to move iron ore from the Lake Superior area to the lower lakes' ports. However, this fleet is composed largely of old ships, many of which are obsolete. Of the 343 Great Lakes bulk cargo carriers, the bulk of them are over 25 years old and, by 1960, approximately 60 percent of them will be at least 50 years old. But even though this fleet of vessels is so old, no orders for tonnage of a major type have been placed currently with any Great Lakes shipbuilding yard. Such a condition is to be deplored in view of our country's need for increasing quantities of finished steel products. As a result, there is need for a sound, long-range modernization program for the Great Lakes fleet of bulk carriers which are so important in the transportation of such large quantities of iron ore, coal, limestone, and grain.

Imports of iron ore produced in foreign countries are transported by both American-flag and foreign-flag vessels. The United States Merchant Marine includes 11 ore carriers of 256,000 deadweight tons, which were built between 1945 and 1948. Of these 11 vessels, 8 are owned by the Bethlehem Steel Corporation and three are owned by the Ore Transport Company. In 1954, these vessels transported the bulk of the iron ore brought into our country by American-flag vessels—all but 335,000 tons.

Complete records as to the number of foreign-flag ore carriers specializing in the carriage of iron ore are not available. We do know that there are 95 foreign-flag bulk carriers which transport all kinds of bulk commodities, many of which are designed to operate only between certain ranges of foreign ports. Consequently, many of these bulk carriers do not operate in the import trades of the United States.

Most of the iron ore carried in the United States import trade by foreign-flag vessels in 1954 was moved by foreign-flag tramp vessels and not by foreign-flag industrial carriers. Of the 8,906,000 tons of iron ore moved by foreign-flag bulk carriers, only 15 percent was carried by industrial carriers; practically all of the rest of iron ore transported by foreign-flag vessels was carried by foreign-flag tramp vessels. In 1955, however, the percentage carried by foreign-flag industrial carriers will be increased substantially.

Of the 13,801,000 tons of iron ore imported by the United States and carried by ocean-going vessels, American-flag vessels carried 4,895,000 tons, or 35.5 percent, and foreign-flag vessels carried 8,906,000, or 64.5 percent. However, the percentage of United States ore imports carried by foreign-flag vessels is bound to increase unless additional bulk ore carriers are built for United States registry. At present, there are no such vessels under construction for United States registry, while there are 75 bulk carriers of almost 1,700,000 deadweight tons for foreign-flag registry under construction in world shipyards. Of the bulk carriers under construction or on order in foreign shipyards, 15 of 531,000 deadweight tons are being built for the account of American owners who intend to register them in foreign countries.

In view of this situation, the Secretary of Commerce wrote the major ore importing companies informing them of his concern that such a large proportion of the bulk ore imports was being transported in foreign flag vessels. He asked them to explore the possibility of using American-flag bulk cargo vessels and to indicate their interests in building and operating such vessels. In addition, he informed them that construction-differential subsidy aid could be made available in order to place United States construction costs on a parity with foreign construction costs.

Replies to this letter were received from most of the companies. While some of them indicated that they had no interest in the matter, the remainder stated that the high cost of owning and operating ships under United States registry constituted a most serious obstacle and that they were compelled to use foreign-flag ships, usually on a charter basis, in order to maintain a competitive position. However, there are indications that several of these ore importers would be willing to operate United States-flag bulk or vessels if they could be operated at cost comparable to those of foreign-flag vessels.

The shipbuilding potential of Great Lakes shipyards will provide a significant wartime mobilization nucleus. As present, there are 15 ways on the lakes capable of building vessels of as much as 18,000 to 20,000 deadweight tons. These 15 ways may produce up to 15 ships each year. In addition, shipyards on the Canadian side of the lakes will provide a valuable supply of shipbuilding facilities in time of national emergency.

The Maritime Administration has developed a ship design program which at present includes seven different vessel types. This program is designed to provide a broad basis for the purpose of establishing the physical characteristics desirable in ships which will comprise the future American merchant marine. It includes the design plans for a dry cargo bulk vessel which is intended to be not only a carrier of ore, but also of other dry bulk commodities, including bauxite, grain aind coal.

We realize that the development of the St. Lawrence Seaway has resulted in increased American interest in the ore trade. We anticipate that the opening of the St. Lawrence Seaway will make Labrador ore more competitive with Lake Superior ore, and that foreign-flag ships will undoubtedly seek to capture the Labrador/United States movement. We recognize that any Great Lakes replacement vessels would be largely engaged in domestic traffic within the Great Lakes, although they would probably spend part of their time in a Canadian/United States ore and grain movement. Owners will desire to have this flexibility of use to engage partly in foreign commerce of the United States and partly in domestic commerce.

The Department of Commerce study entitled "A Review of the Coastwise and Intercoastal Shipping Trades," dated December 1955, did not deal specifically with the Great Lakes problem, but concluded that there is no present need or justification for construction differential for the acquisition of vessels to be operated in the coastwise and intercoastal trades. Since the domestic legs of the Great Lakes movement are domestic trade and since foreign-built ships are barred from such trade, the same conclusions would apply with respect to construction-differential aid for Great Lakes tonnage.

Your committee may wish to give consideration to eliminating, as applicable to operation on the Great Lakes, the limitation in section 605 (a) of the Merchant Marine Act, 1936, as amended, which provides that "no vessel operating on the Great Lakes or on the inland waterways of the United States shall be considered for the purposes of this act to be operating in foreign trade." Removal of this restriction would permit the extension of all of the aid provisions of the 1936 act applicable to foreign trade operations to ships engaged in foreign commerce on the Great Lakes. It should be kept in mind, however, that as a general policy the foreign trade subsidies have been granted only to common carriers.

With respect to possibilities of aiding new construction through accelerated depreciation, it is noted that this is a matter within the jurisdiction of the Office of Defense Mobilization.

We believe that the trade-in provisions of section 510 of the Merchant Marine Act, 1936, as amended, should provide a reasonable basis for encouraging the construction of new Great Lakes bulk cargo tonnage. In the early years of World War II, trade-in allowances

were granted on the basis of a 60-year useful life for the ships traded in, with valuations approximating world market prices.

The CHAIRMAN. Now, Mr. Ford, when you speak of the 1936 act, it is correct that we do have that limitation in there on vessels operating in the Great Lakes as to the construction differential alone, but it does not operate as a limitation upon them for trade-ins. Is that not correct?

Mr. FORD. I believe that is correct. The restriction on trade-ins, insofar as the Great Lakes are concerned, is the age of the vessels. They have exceeded under the trade-in formula the 20-year useful life period. Therefore, you would have to have a special formula applicable to ships used——

The CHAIRMAN. That is the great bulk of them, not all of them, but 90 percent of them?

Mr. FORD. I do not know the exact percentage.

The CHAIRMAN. You have devoted your suggestions, and I think some of them are good regarding the construction differential on the Great Lakes and inland waterways, but you dealt only with iron ore. Do you have any figures in a general way about the other carriers of other types of ore? What about the aluminum?

Mr. STAKEM. I do not think we have them with us, Senator.

The CHAIRMAN. I wish you would furnish figures, if you have them, for the record on other types of bulk shipments, particularly strategic materials or the raw materials which involve strategic materials including aluminum and others that we are stockpiling.

Mr. STAKEM. We will, sir.

The CHAIRMAN. And would it be fair to say that the situation generally in that field is about the same as it is in the iron ore field?

Mr. STAKEM. I think it would, Senator, just about a comparable situation.

The CHAIRMAN. And that most of our strategic materials or the raw materials that go into them were pretty much dependent upon foreign-flag shipping, where they come from outside?

Mr. STAKEM. Yes.

The CHAIRMAN. I think the situation does apply to the aluminum field.

We have the figures here, and I think the record ought to show that the iron ore imports totaled 13 million long tons of which 4.8 million long tons were brought in on American ships while 9 million were brought in—these are the 1954 figures—on foreign flag.

Here are the aluminum figures; they are even worse: Bauxite, a total of 5,272,000 long tons. Only 1,660,000 long tons came in on American flag and 3.6-million-plus came in on foreign flag.

And here is gypsum—of 2,796,000 long tons, only 330,000 tons came in on American-flag vessels.

Magnesium, 2-million-plus long tons, only 313,000 tons came in on American flag.

And of chrome, 1,130,000 long tons, only 360,000 came in on American flags so the figures on just these 4, bauxite, gypsum, magnesium, and chrome, and the others listed here, miscellaneously, are even worse than the iron ore.

Mr. STAKEM. Yes, those figures, Senator, apply, I believe, just to the year 1954. We may have other figures for other years.

The CHAIRMAN. I wish you would bring them up to date, because I think the situation has become worse.

You have made those suggestions, Mr. Ford, as I pointed out, the possibility of trade-in, and the possibility of accelerated depreciation which is up to the Defense Mobilization, Mr. Fleming's shop, and the possibility of an amendment to the 1936 act which removes the prohibition on the Great Lakes and inland waterways. Now, what incentives without any changes do they have, leaving out, of course, the ODM accelerated depreciation. They have a trade-in?

Mr. FORD. Are you referring to the Great Lakes?

The CHAIRMAN. Or any ore carrier.

Mr. FORD. Well, the incentive for building, of course, is construction-differential subsidy.

The CHAIRMAN. Which would apply to anyone outside the Great Lakes?

Mr. FORD. That is right, sir.

The CHAIRMAN. Yes.

Mr. FORD. The Great Lakes, as I indicated—unless the law is amended to eliminate the Great Lakes provision—are automatically eliminated from the benefits.

The CHAIRMAN. Unless the Great Lakes provision was eliminated, but other than that, these other possibles remain, the possibility of ODM suggesting that this is a defense matter and therefore they are entitled to accelerated depreciation. Do you know whether or not that has been proposed to ODM?

Mr. FORD. I believe that there are requests now before the ODM to grant accelerated——

The CHAIRMAN. Do you know whether or not they have acted favorably on any of the requests?

Mr. FORD. Well, I believe the requests are of very recent origin.

The CHAIRMAN. Recent origin. And, of course, I think it would be a fair statement to say—and you would agree with me—that these surely are in a defense category. I say this in view of the Secretary's letter that he wrote to the operators, pointing out the need for ore carriers, that surely it would be the position of the Department of Commerce and the Maritime Administration that the need for new ore carriers would be in the defense category.

Mr. FORD. We have supported these requests for accelerated depreciation. Other benefits available are mortgage insurance, title II, and we have not any firm requests on the basis of operating subsidy. It has been the policy of the Board up to this time, the Maritime Board, to grant operating subsidy only to common carriers.

The CHAIRMAN. Yes.

Mr. FORD. And it is a possibility that operating subsidy might be granted if some formula could be arrived at in which they would pay operating subsidy only on the basis of salary differential, wages.

The CHAIRMAN. Well, I appreciate the difficulties of arriving at an operation subsidy in these particular cases, but let me ask you this question: Under the law it could be done?

Mr. FORD. I believe it could.

The CHAIRMAN. Under the present law?

Mr. FORD. I believe it could be done.

The CHAIRMAN. If you decided within your discretion to do so, you would need no legislative changes?

Mr. STAKEM. On that point, Senator, the question has never been squarely put to our counsel, but as to whether any changes would be necessary it would certainly assist if there was a clarification. Up to this point, no industrial carrier or so-called captive fleet would be subsidized and there is a difference of opinion as to whether it could under the present language. But the question has never been squarely met within Maritime.

The CHAIRMAN. Well, I am hopeful that you will resolve it and if there are some legislative changes needed that you would so recommend to us and we might take a look at them.

I would think, personally, and this is merely a curbstone opinion, that you could, under the present act, but there may be some need for clarification.

Now, we have a letter from the Department of Commerce on this matter written to us December 1, 1955, which we will place in the record in full. It strongly agrees along the lines of your testimony, Mr. Ford, on this matter.

(The letter referred to above is as follows:)

UNITED STATES DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
Washington 25, D. C., December 1, 1955.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce,
United States Senate, Washington 25, D. C.

DEAR SENATOR MAGNUSON: Reference is made to your letter of November 10, 1955, concerning the advisability of strengthening American supply lines of critical ores from foreign sources. You have asked that I advise you what amendments to present laws, if any, would be required to permit the granting of construction and operating subsidies to vessels engaged in such transportation.

With regard to construction subsidies, the Maritime Administration believes that the Merchant Marine Act of 1936, as amended, authorizes the granting of construction subsidy aid to build ore carriers to be used in the foreign commerce. It must be noted however, that for the Maritime Administration to proceed along these lines, it must have a firm application in order to seek the necessary implementing appropriations. To date, we have received only one application from American Bulk Carriers, Inc., for construction-differential subsidy under title V to aid in the construction of six combination bulk ore and petroleum carriers. Under date of November 17, 1955, we sought additional information from the applicant and you may be assured that the Maritime Administration will take every action consonant with the law and the public interest to process this application.

As regards the question of operating subsidies for vessels engaged in such transportation, it is conceivable that if the Maritime Administration received applications for operating subsidy, it could grant such aid within the language of the statute, provided the vessels "are to be used in an essential service in the foreign commerce of the United States". However, since operating-differential subsidy assistance has been given only in connection with the operation of common carriers, the Maritime Administration believes that as a matter of policy the extension of operating-differential subsidy assistance to ore carriers should be undertaken only after complete executive and legislative examination into the details thereof, especially the estimated cost.

You have also asked for any suggestions the Maritime Administration might have as to possible alternatives to construction and operating subsidies that might bring about increased participation by American-flag shipping in this rapidly expanding field. The Maritime Administration sees no practical alternative to construction-subsidy aid. We have sought, and we continue to encourage, the construction of ore carriers and other types of ships through the use of the mortgage-insurance provisions of the Merchant Marine Act, 1936, as amended, and we stand ready to lend our support to such construction through such other aids as may be available from time to time, i. e., priority assistance and technological assistance. However, it is evident that these types of assistance, im-

portant and useful as they may be, are not, by themselves, sufficient incentive to assure the construction of an adequate number of ore carriers in United States shipyards for American-flag operation.

As regards possible alternatives to operating subsidies, the Administration suggests that it may be possible for new, efficient, American-flag ore carriers, manned by crews of reasonable numbers, to be operated successfully in this ever-expanding trade. In this connection we would call to your attention the so-called Tonsina agreement, as a result of which a west coast operator was successful in competing for traffic on one voyage by reason of union agreement to operate the ship with 31 men instead of 38. We believe that this type of joint labor-management cooperation may offer a pattern for successful United States-flag participation in the bulk movement of large quantities of ore. However, we believe that under such an arrangement the venture may be successful on a long-term basis only if modern, efficient vessels of large size are built. It is possible, however, that the reduced cost of operating new, efficient tonnage with smaller crews may not provide a sufficient incentive to induce substantial American-flag participation in this movement and that the United States Government at some future time will be required to decide whether or not American-flag ore carriers must be granted some type of an operating subsidy.

As you are aware, we have approached the major ore importers with a view to furthering American-flag participation in this trade. This group has indicated that the high cost of operating ore ships under United States registry constitutes a most serious cost obstacle, and in order to maintain their relative competitive status, they have been forced to use foreign-flag ships, usually on a long-term charter, to a large extent. There are indications that several importers of ores appear to be willing to operate vessels of United States registry, provided they can obtain ocean transportation at costs which are approximately equal to the costs of foreign-flag carriers.

The Maritime Administration has completed a proposed bulk carrier which is known as the Bulk Class, MA Design C5–S–RN–20–a, which incorporates the latest technological developments for ships of this type. An enclosure outlining the design details is forwarded as an attachment to this letter. The Administration has not submitted a request for appropriations to construct the "Bulk Class" vessel, but has advertised this design as being available for prospective builders of the ship. We will, of course, be prepared to receive and process applications for construction-subsidy aid, in connection with the building of ships of this design, and will submit the necessary appropriation requests upon the receipt of such applications.

I trust that the above information will provide a satisfactory answer to the questions raised in your letter under reference.

Sincerely yours,

CLARENCE G. MORSE,
Maritime Administrator.

The CHAIRMAN. Now, you say you have supported the requests of these people for certificates of accelerated depreciation and up to date there has been no decision made by ODM?

Mr. FORD. I believe that is correct.

The CHAIRMAN. The Chair would like to say that I don't know how they are going to decide nor do I pretend to tell them how to decide on these things, but I have seen a lot of certificates down there that have been granted, probably rightly so. But surely the defense value of the applicant or the value of the activity for which he is asking the accelerated depreciation, are not any more important to our defense than what we are talking about here. So I hope they will act promptly.

Mr. Cooley might have something to say about that when he comes before us.

Now, you say that regarding the letter of the Department of Commerce to the operators, the replies showed a lack of interest because of the high cost of operating the ships?

Mr. FORD. That is generally true; yes, sir.

The CHAIRMAN. I suppose that is crewwise mainly, and I don't know why it would be much different in operating costs, fuel; it would be mainly crewwise, would it not?

Mr. FORD. I believe it is mostly a matter of wages.

Mr. STAKEM. It is true, Senator, that about 85 percent of the total operating subsidy paid is in the matter of wages.

The CHAIRMAN. What is the average on a, say, 18,000-deadweight-ton ore ship. What is the crew average, would you say? Who can answer that?

Mr. FORD. I would——

The CHAIRMAN. How many are on board, generally?

Mr. STAKEM. We could straighten the record out on that. We have it.

The CHAIRMAN. Well, it would be under 50, between 40 and 50, I think.

Mr. STAKEM. Fifty would be a rough guess, I think.

The CHAIRMAN. And, of course, what surprises me is that the difference in pay on those 40 and 50, in a big operation such as this bulk transportation, would make that much difference to fly the foreign flag.

Mr. FORD. Well, I think that it goes back further than that, sir. In the first place they did not have the tonnage. I believe that as long ago as 5 or 6 years ago a number of operators came in and applied for a construction subsidy, for the purpose of building ore carriers and this was denied, so they built the ships in foreign yards and registered them under foreign flags.

The CHAIRMAN. And now there are none on our ways, I understand, that they would have?

Mr. FORD. None, sir.

The CHAIRMAN. And there are 75 being built in other shipyards?

Mr. FORD. That is right, sir.

The CHAIRMAN. And as far as we know they are all being built for foreign-flag registry?

Mr. FORD. Yes, sir.

The CHAIRMAN. And 15 of those are being built for American owners who say they intend to register under foreign flag? They don't have to, but they intend to, as far as we know.

Mr. STAKEM. That is correct.

The CHAIRMAN. They could change their minds, could they not?

Mr. FORD. They could, but I doubt if they would.

The CHAIRMAN. Well, I doubt it too, but I say they could.

And you have designs down there already, as you point out, so that everything is there for them to come in, but it is a question of operational costs?

Mr. STAKEM. That is the meat of the coconut.

Mr. FORD. That, I believe, is the principal objection.

Although I might add that even with some favorable encouragement in the Secretary of Commerce's letter very few of the operators were favorably inclined.

The CHAIRMAN. Well, I think it was commendable of the Secretary of Commerce to take the initiative in this case and see if he could not do something about it, at least give some encouragement.

Now, you point out that some of these operators say that these ships are under NATO and will be available in time of defense. And wasn't it our experience in World War II, that, sure, all these ships were available to us—but we never got them. We had to build our own fleet—they disappeared some place. It is true that the British and the Norwegians and the maritime nations of the free world were cooperative but as a practical matter we had to go out and spend billons to build our own fleet. Their ships just were not available. They believed, maybe rightly or wrongly so, that they could use those ships themselves and we never did have them. And if something happened would you not believe this is true, that we would have to go out and spend a great deal of money and do all the things that we are hoping can be done now and add to it to build some more bulk carriers. Otherwise, we would be without these strategic raw materials, and particularly iron ore that you mentioned.

Would you believe that is a fair statement?

Mr. FORD. We think it is desirable to have some more carriers under the United States flag.

The CHAIRMAN. We went through that experience when we got in trouble in World War II, and we did not have much use of the tonnage that was supposed to be available.

I think it becomes a serious situation to let this deplete the way it is.

Well, thank you, Mr. Ford.

Mr. BOURBON. Could I ask a question?

The CHAIRMAN. Excuse me. Counsel would like to ask a question.

Mr. BOURBON. On page 6 at the top of your statement, Mr. Ford, you say there are cases where several of these American ore importers would be willing to operate United States flag bulk ore vessels which could be operated at costs comparable to those of foreign-flag vessels. Now, does that——

Mr. FORD. What I meant was that if we could pay some operating subsidy which would put them on a competitive basis such as we do with our cargo fleet they would be willing to operate under United States flag.

Mr. BOURBON. Well, now, sometime ago there were figures given out about how the building of larger tankers cut down cost of operation and I believe it was indicated that costs would be reduced as much as 35 percent. Would that same reduction in cost operate if they built large, modern ore carriers as against the present tramp fleet?

Mr. FORD. Well, I think the largest ore carrier can undoubtedly operate at lower cost but as long as you have to employ a crew there is still going to be a differential and the differential will be in favor of the foreign-flag operator.

Mr. BOURBON. That is all.

The CHAIRMAN. Did I understand, you may have answered this, that some of these operators that are now under foreign flag have applied for subsidy, operational subsidy?

Mr. FORD. We have no positive application, but we have talked to a number of the operators and they are interested, particularly those who are anticipating some new building——

The CHAIRMAN. And, of course, there would not be much that the Maritime Administration could do until you get the application, pre-

liminary exploration as to their intentions, and what you might do under the act?

Mr. FORD. That is correct.

The CHAIRMAN. Thank you, Mr. Ford.

Mr. Stuart, we will be glad to hear from you.

Mr. Stuart is president of the American Tramp Shipowners Association.

Go ahead, Mr. Stuart.

STATEMENT OF JAMES B. STUART, PRESIDENT, AMERICAN TRAMP SHIPOWNERS ASSOCIATION, INC., ACCOMPANIED BY MARVIN J. COLES, COLES & GOERTNER, ATTORNEYS, COUNSEL, AMERICAN TRAMP SHIPOWNERS ASSOCIATION, INC.

Mr. STUART. My name is James B. Stuart. I am presenting this statement as president of the American Tramp Shipowners Association, representing a substantial majority of the American-flag tramp shipowners.

The CHAIRMAN. Just there, generally speaking, how many tramps do they have operating?

Mr. STUART. About 70, sir.

The CHAIRMAN. Continue. Let me ask this, too, so I can get this perspective. At the end of World War II we had about——

Mr. STUART. About 160 or 170.

The CHAIRMAN. How many do we have operating?

Mr. COLES. Mr. Chairman, at one stage after the war I think we had over a thousand Government-owned vessels which were operating under bareboat charter and general agency. When we settled down, we had, as I recall, about 140 straight tramps. There were some industrial carriers that went into the tramp——

The CHAIRMAN. The point is, this has been a steady decline in tramp vessels.

Mr. STUART. We sincerely appreciate this opportunity to express to this committee our viewpoints on the subject of ore vessel construction and operation. The American Tramp Shipowners Association and its members are particularly interested in the tremendous volume of ore imports required by our Nation to maintain its industrial capacity and to assure its national defense. For those purposes, we feel that the building and operation of a sizable fleet of new American-flag bulk carriers is absolutely essential.

Our vessels are primarily of the "Liberty" class and are engaged principally in the so-called bulk trades. With the construction of new ore carriers for foreign account, our ships are fast becoming noncompetitive and will soon be driven from the seas both by economic obsolescence and the physical deterioration of advancing age. Unless something can be done to provide for new bulk carriers under American-flag registry, our total tramp fleet will soon be but a memory and the carriage of all ore and other dry bulk cargoes in our oceanborne foreign commerce, averaging 6.8 million tons per month in 1955, will be completely at the mercy of foreign-flag carriers.

We hope that, as a result of your present study, there will be sustained effort on the part of this committee to prevail upon Congress

to build an American-flag ore-carrying fleet before the existing American companies capable of owning, operating, and managing such ships are forced out of business.

I assure you that we will cooperate with this committee in every way possible to insure the development of such a new bulk-carrier program.

In presenting our views, may I say that I and the members of our organization have explored the possibility of building new American-flag ore carriers from all possible points of view. We are firmly convinced, for the reasons summarized below, that, without Government aid beyond that presently available, there is no possibility of such new ships being built and operated under American registry.

The basic problem with which we are faced in considering the building and operation of American-flag ore carriers is that our construction and operation costs are far higher than those of other nations.

The steel companies are both unwilling and unable to pay the far higher freight rates which American ships would have to charge for carriage of ore as compared to the rates available for new foreign-flag bulk carriers.

In view of the fact that ore is a low-cost commodity and that the shipping cost is a substantial item in computing the delivered cost of the ore, the steel companies are obviously unable to charter American vessels at the higher rates.

Should any steel company be willing to do so, it would immediately be placed at a substantial competitive disadvantage with other steel companies who choose to use foreign-registry ships.

May I point out that the need for ore carriers is to carry cargoes in the offshore trades, rather than in the domestic American trades. In the oil business, a substantial volume of oil must be moved in the domestic trades.

As these domestic trades can only be served by American-flag ships, there is always demand for American tanker tonnage. So far as we know, however, there is no coastwise or intercoastal trade for ore carriers and, therefore, no possibilities of such vessels being built for American registry for use in the protected domestic runs.

To enable us to build the American bulk-carrier fleet which our Nation needs and which our members desire to construct and operate, it is necessary that steps be taken to equalize both our construction and operation costs with those of foreign shipowners.

Only in this way can American steel companies be put in position where they can use American ore-carrying vessels without being at a serious competitive disadvantage as compared with companies using foreign-flag carriers.

The first step is a construction differential subsidy to make our construction costs equal to those of foreign shipyards.

This is available under existing law. But we well know that despite the availability of this construction differential subsidy assistance, no member of our association has sought to build ore carriers solely with construction subsidy.

For even if our construction costs are made equal to those of our foreign competitors, the cost of operation of American flag ore carriers is over double that for which comparable vessels can be operated under foreign flag.

Because of this operating cost differential, we are unable to offer to the steel companies vessels at rates which they are in position to accept.

In other words, the construction subsidy only removes one of our competitive disadvantages and still leaves the operation cost differential as an insurmountable obstacle.

The CHAIRMAN. Well, in other words, you might go ahead and build the ships under construction subsidy, but it is your operating costs?

Mr. STUART. That is correct, sir.

The CHAIRMAN. And that gets mainly down to wages. Are the other operating costs any cheaper?

Mr. STUART. Well, you say wages——

The CHAIRMAN. What about your fuel?

Mr. STUART. Fuel is about the same. There is no difference.

The CHAIRMAN. What about all your ship chandlery—that is about the same?

Mr. STUART. I would say that is correct, but you have a difference in maintenance.

The CHAIRMAN. Your insurance is the same?

Mr. STUART. About the same; that is correct, sir.

The CHAIRMAN. Your food costs may be a little different case.

Mr. STUART. A little lower; you don't have the same type of food——

The CHAIRMAN. Well, because of the eating habits of foreign crews as against the eating habits of American crews.

Mr. STUART. That is right, sir.

The CHAIRMAN. But that wouldn't be substantial deterrent, would it?

Mr. STUART. Not substantial. It is an item that is taken into consideration when it is a cumulative item. Let me put it that way.

The CHAIRMAN. What else?

Mr. STUART. I would point out the question of maintenance, because in a foreign ship, with foreign crews, you will have a foreign crew working on the ship to maintain the vessel to a much greater degree than the American crews will—that is, without overtime.

So, consequently, the American one is faced with a greater repair bill in the yards than the foreign ones for that reason alone.

The CHAIRMAN. But with new ships that would not be as great as with the old ships?

Mr. STUART. Not at the outset, in the operation of the ship, but within a short time—I mean a vessel must always be maintained; it is work that is constantly going on.

The CHAIRMAN. Painting and repair jobs aboard ship that can be done while you are out.

Mr. STUART. That is correct, sir.

The CHAIRMAN. But the thing I am getting at, the real difference is the wage?

Mr. STUART. That is the No. 1 thing, and the number of crew that you have aboard a ship.

For instance, let's take a Liberty vessel; it is manned with about 37 crewmen, whereas a foreign ship will operate with about 29. You immediately start out, even if they had the same wage level, that the one ship operates with about 8 men less than the American ship.

The CHAIRMAN. So you get down to the question of an operational differential subsidy; that is the meat of the coconut.

Mr. STUART. Right.

The CHAIRMAN. And the Maritime Commission testified that no one has applied for that.

Mr. STUART. For subsidy, operational subsidy.

The CHAIRMAN. Yes.

Mr. STUART. Well, Mr. Coles has been counsel to the association for a number of years prior to my assuming the presidency and I don't know if anybody has applied.

Mr. COLES. So far as I know, Mr. Chairman, that is completely correct. Now, we made an application in principle for the tramp industry about 5 years ago and argued that the present law which gives an operating subsidy for vessels on a trade service route or line should include a tramp or bulk shipping service. We were turned down, but that was not a formal application by any operator.

I think this, so long as an ore carrier would be in a particular route or two or three particular ore routes, that the Maritime Administration could declare those routes to be essential under existing law and then could, under existing law, guarantee a subsidy.

The problem is, as Admiral Ford pointed out, however, they have always given a subsidy only to a common carrier who would carry goods for whoever offered those goods on common carrier terms, whereas these ore contracts and ore ships would have to be under contract to particular carriers by independent owners, or would be handled by ships which are proprietary carriers in that they are owned directly by the ore company.

Could I add one further thing——

The CHAIRMAN. Let me interrupt right there. I appreciate what their policy has been and I remember the time when we explored this as to tramps, but what is the reason given in any instance, or one of the reasons given, other than the policy which they have been following, that they did not have the authority to do this.

Mr. COLES. At that time we argued with the then general counsel who is now deceased. However, I want to say this, that at that time we were talking about tramp trades.

The very nature of most tramp trade—and this would apply to many bulk carriers—is not to go on a particular route but to divert from that route when business offers. On that concept he held that they were not eligible for subsidy.

I believe that if you came in on a particular route that even under his holding at that time, operating subsidy could be had.

The CHAIRMAN. He said they were not eligible because the law restricted them to that policy.

Mr. COLES. I can't give you the basis for that.

The CHAIRMAN. The point here we are concerned with, if the 1936 act would not allow them to do what we are suggesting, then and now, that is one thing, then Congress would have to act in the way of legislation if we deemed it advisable to pursue this matter to open it up. But if they have the authority to act under the law and as a matter of policy they are not acting, then that becomes an administrative thing.

Mr. COLES. May I say this, Mr. Chairman, that the question of whether or not they can or cannot, is, let us say, in the realm of the doubtful.

The CHAIRMAN. Well, do you not think that ought to be resolved pretty soon?

Mr. COLES. In any event, legislatively, and I think it can be done quite easily by amending the existing law.

The CHAIRMAN. I appreciate that every time there is some doubt they want us to take the bull by the horns and legs rather than face up to the decision themselves.

Mr. COLES. I don't think that is quite fair. I think you are putting them on the spot a little too much. I would say this, the question is whether or not the administration would be justified in spending millions of dollars of the taxpayers' money unless they were sure.

Now you can be sure by taking the 1936 act—and this is simplification, but practical simplification—wherever you have the word service, route or line, add after the word service, "including tramp or bulk carrier service" and that, I think, would clear up any difficulty.

The CHAIRMAN. Well, I am not putting anybody on the spot. I have been around here long enough to know that every time there is a question and a legitimate question as to the authority of a department or an independent agency, they would like Congress to spell it out for them rather than to take it themselves.

Mr. COLES. Sir, if I were the Maritime Administrator, I would like it spelled out.

The CHAIRMAN. I don't blame them for wanting that.

Mr. COLES. This is not weakness, Mr. Chairman. I think it is a practical legal question.

The CHAIRMAN. But the problem of passing legislation is much more difficult to meet a thing like this—I think this is almost an emergency—than if there is a possibility that they could do it within their authority under the law.

Now, we could help them with that policy without passing legislation in case the committee decided here that this is the thing to do.

We have often done that, and the departments have been very cooperative when we go along with them. But I am thinking of the practical matter of amending the 1936 act, particularly at this session of the Congress.

Mr. COLES. Well, let me put it this way then, sir, and I am not hedging. The act could be stretched, and I emphasize the word "stretched," but I would have, if I were the Maritime Administration, reluctance unless you pushed me very hard.

You see he is going to be "second guessed" by the General Accounting Office.

The CHAIRMAN. But you do think, in any event, should they decide, and we are all agreed that this should be done, and it might be impractical at this time to try and amend the act, that there would have to be some stretching of their authority to do what we are suggesting?

Mr. COLES. I think it could be stretched. As I say, they would be second guessed by GAO and others in the Government.

The CHAIRMAN. Well, they are all second guessed by the GAO. That happens no matter what they do down here. I don't think we should worry about that too much, because you are always going to get them looking; and that is rightly so, they should, but sometimes you have to do these things when you run into a situation like this.

We let this go one more year and one more session of Congress, and then it is gone so far downhill I don't think we will ever get it back.

Mr. COLES. I think the ore companies will have made——

Mr. STUART. I think you would have an additional problem if you did stretch the act as it reads, insofar as Maritime came along and said, "Yes; we will say this particular route is essential," but to go all out and engage in tramp trades generally the same as the foreign ship does, I definitely think that you need the legislation for it.

The CHAIRMAN. Well, I always have been of the opinion—I can't get away from it—if we are going to keep our merchant marine alive, that we have got to liberalize the space in between which people could come in and justify an operational differential subsidy. I think we are going to have this struggle, which many of you know in this room, we have gone through for years and that is the only end result.

Now, we just cannot get away from it as long as foreign costs are going to remain below ours. I have always maintained that in the long run it doesn't cost us any more; that we find ourselves caught and then we have to throw money around every place we can throw it, and that costs us more.

Just think, if we would have subsidized our American merchant marine between World War I and World War II to the fullest extent, tramp or any other way, it would have cost us about one-third of the whole bill that we had to spend in World War II to build it back. A third, maybe a fourth, and we wouldn't have had many of these problems. So I think ultimately we have got to face up.

Go ahead.

Mr. STUART. Under the present law authorizing operating differential subsidy assistance, only vessels operating on essential routes can obtain an operating differential subsidy. It seems to us that the basic ore carrier routes could be defined as being "essential" and operating subsidy assistance thus made available within the existing statute.

But operating subsidy assistance has been given only to common carriers and as, by their very nature, ore carriers are contract or proprietary carriers, the granting of an operating subsidy to such vessels would be an extension of the present subsidy policy.

Parenthetically, may I add that members of our association previously requested a ruling as to whether tramp bulk carriers were eligible for operating differential subsidy and the Maritime Administration ruled that they are not.

In order to bring our operating costs to a point where we can compete with foreign-flag ore carriers——

The CHAIRMAN. Right there, let's get the record straight. Did they formally or informally rule? There is a difference.

Mr. COLES. I will have to answer that, Mr. Chairman, by saying that I don't recall. I know very definitely that we were told that the tramps could not receive an operating subsidy and that was in a formal letter——

The CHAIRMAN. That was as a result of preliminary conferences; wasn't it, as to whether or not you should apply and what the situation was?

Mr. COLES. It was the basic question, Mr. Chairman, of whether tramps were eligible for subsidy and we were told they were not.

That was many years ago, Mr. Chairman. A bill was introduced, as Mr. Stuart pointed out, for that purpose.

Mr. STUART. In order to bring our operating costs to a point where we can compete with foreign-flag ore carriers, it is essential in our opinion that operating differential subsidy aid be extended to bulk type ships.

While we feel that the essential route concept is most important for the protection of the subsidized liner companies, we sincerely believe that this concept can be safely and equitably modified to permit bulk carriers, under proper regulation of the FMB, to serve the fluctuating and seasonal needs of American industry and agriculture. In view of what we assume to be the need for change in existing subsidy laws to permit contract carriers of this type to receive operating subsidy, we suggest that the entire question of operating subsidy for bulk carrier ships be considered at the same time.

In making this suggestion, may I add that we believe the present subsidy systems have been of great value to the overall merchant marine, that we seek no change in such system as such, but that we would like to have the existing system extended so as to be applicable to the new conditions which have arisen as a result of the great post-war growth in the bulk trades.

I refer you to an attachment here which indicates the volume of our bulk dry cargoes from 1950 up to September 30 of 1955.

It speaks for itself, it shows the tremendous growth of our bulk cargo export and import trade.

The CHAIRMAN. And we show an increasing growth in the question of imports, bulk imports and that is mainly these strategic materials.

Mr. STUART. That is correct, sir.

The CHAIRMAN. And I would think that would get greater and greater as the years go by.

Mr. STUART. Unless such modifications of the operating subsidy requirements are made, it is our considered opinion the construction of essential American-flag bulk ore carriers is financially impossible.

As you know, the foreign sources of ore for American steel mills have been developed only in the past several years on their present major scale.

The CHAIRMAN. I just want to point out there, we are always talking about iron ore, which is the main item.

Mr. STUART. I am speaking of all our bulk imports.

The CHAIRMAN. I want to point out that the total of the others almost equals the imports of iron ore, and it isn't only iron ore. The others have necessary raw material or ore for strategic materials.

Mr. STUART. Until the past several months, tramp rates were so low that Liberty ships and other type ships were used by the steel companies to carry much of this ore.

With the large increase in the foreign tramp rates over the last 6 months, plus the continuing increase in the volume of ore being shipped, we are informed that the steel companies have been caught in a squeeze for ore transportation.

Because of this, they are building abroad and chartering abroad on a major scale. Unless steps can be taken promptly to permit American-flag ore carriers to be built, I feel that the steel companies will have built or chartered up to their needs for the next 10 years. While we do not have full figures on this, we are informed that the shipments

after the next 2 years, by which time new foreign-flag ore carriers will be available, will be substantially at the rate of shipment to be maintained over the next decade.

If this information is correct, it would appear obvious that unless American-flag ore carriers can be built promptly, aid permitting their construction and operation could conceivably become academic because foreign-flag vessels will have been contracted for, sufficient to handle the shipments contemplated.

The CHAIRMAN. Now, let's take one concern. There is nothing wrong with this. I am not criticizing this concern, but take a concern like Bethlehem Steel that own shipyards—are they building in their own shipyards, or are they building foreign?

Mr. STUART. I couldn't tell you.

The CHAIRMAN. Here is a steel company that has its own shipyards, and good ones. I would be interested to know whether they would feel competitively that they could even build in their own yards which would give them a little advantage in contracting it out.

Mr. STUART. It is not only the question of building, it is a question of operation. We keep coming back to that. We always must, we can't lose sight of that.

The CHAIRMAN. They can build and still put their ships foreign. They are not under subsidy. I am thinking of—this goes further than just the carriage, this goes to shipbuilding in this country, too, which is at a very low, low ebb.

Mr. COLES. Mr. Chairman, I am only guessing at this, but according to the latest subsidy figures, the foreign shipbuilding costs approximately 40 percent lower than the American.

I am certain that Bethlehem could not make a profit or cut its cost 40 percent.

The CHAIRMAN. In other words, they may be legitimately forced, logically, economically forced to go away from their own yards, which I am pointing out is a pretty sad state of affairs.

Mr. COLES. I cannot speak for them, but that would be my guess.

Mr. STUART. As you know, the pattern for cargoes to and from the United States has changed substantially subsequent to World War II. Prior to that war, 68 percent of the export tonnage and 65 percent of the import tonnage of the United States was carried on liner vessels, and 32 percent of the export and 35 percent of the import tonnage was carried as tramp type cargo.

In recent years, bulk movements have been increased. According to the most recent figures we have been able to obtain, only 36 percent of our export tonnage and 30 percent of our import tonnage are on liner type vessels whereas 64 percent of our export tonnage and 70 percent of our import tonnage now consists of tramp type cargo.

While nothing should be done to handicap or hinder our present subsidy policy on liners, we feel that the present situation requires that the subsidy experiences which made possible American liner operation should now be extended to bulk type ships for the ore and general tramp trades.

Unless this can be done, we will soon be left solely with the liner fleet and be unable to serve that portion of our cargoes on which our peacetime industry and our wartime potential must depend.

We feel that unless operating subsidy assistance is made available to bulk carrying vessels, our merchant marine will not be in position to serve our national needs.

We have given careful consideration to the so-called Tonsina agreement and the possibility of American-flag bulk carriers competing for traffic by reason of union agreements making the American tramp ship more competitive by lowering labor costs.

We believe that labor-management agreements are an essential element of any future American operational program. We wish to point out, however, that while smaller crews and lesser operating costs resulting therefrom would certainly be helpful, it does not provide the needed assistance necessary for new construction.

For even if the crew costs on American bulk carriers were to be reduced to the relative scale of the Tonsina agreement, our cost of operation would still be far higher than our foreign competitors and our ability to compete would be only incidentally improved.

Such relief as would be thus obtained might, as you know, be nullified after but a short period by subsequent wage negotiations, an uncertain premise upon which to plan long-term investments.

An ore-carrier venture can be successful on a long-term basis under the American flag only if vessels of the larger sizes are built.

But, unfortunately, the building of such new, large, and efficient vessels does not decrease our competitive disadvantage as foreign-flag vessels of similar large size and efficiency are also being built.

Accordingly, any advantage which might come from the greater size of new American bulk carriers would be very short lived.

In view of our much higher operating and construction cost, we believe it would be impossible to operate a new, large, and fast American ore carrier fleet to compete with similar foreign-flag ships under present circumstances.

Our members are most interested in this program of new American-flag ore carriers. We feel that our members are well qualified to operate such ships as we are particularly well acquainted with the ore and general bulk trades.

Many of us have discussed possible charter with major steel companies. We have considered the problems of financing ships of this kind. Without exception, we have concluded that under presently existing laws, their construction and operation is economically impossible. In the event that operating as well as construction subsidy could be made available to ore carriers of this kind, many of our members would be willing to commit themselves to build and operate the new ships under the American flag.

We believe that with such extension of operating subsidy, an American-flag ore fleet will be built and maintained, and without such extension, we are convinced that this goal is impossible.

The CHAIRMAN. What is the difference between, briefly, this program or your inability to get into it, and the tanker program? Why cannot some of the tankers do this without——

Mr. STUART. First of all we have operated on long term charters with MSTS. You have an intercoastal tanker business which does not exist in the ore trade.

The CHAIRMAN. In other words, the reason we could build under an American flag these 20 tankers, the new ones, is because the privately owned ones have a long-term charter with MSTS.

Mr. STUART. Correct, sir.

The CHAIRMAN. Then there is always a possibility of intercoastal business?

Mr. STUART. Yes. The study presently being made by this committee is directed to the problem of construction and operation of ore carriers.

As previously stated, the basic ore carrier routes could possibly be defined as essential and operating differential subsidy assistance thus be made available within the existing statute to ore carriers confined to such routes.

But we believe that, while the essential route concept is most important for the protection of the subsidized liner companies, it could and should be safely and equitably modified to permit bulk carriers, under proper regulation of the FMB to better serve the fluctuating and seasonal needs of our agriculture as well as our industry.

We must not lose sight of the enormous quantities of bulk cargoes in our export foreign commerce.

And again I refer you to the exhibit attached, exhibit A. And how essential to our national economy and, I may add, to our international mutual security, are these cargoes of wheat and coal destined to friendly nations overseas.

American tramp vessels are carrying but 9 percent of these export bulk cargoes and this only because of the fifty-fifty cargoes specifically reserved to them. The essential route concept applied to ore carriers——

The CHAIRMAN. Incidentally, down on the floor they are trying to knock that out.

Mr. STUART. I understand, sir. That is a very sad state of affairs.

The CHAIRMAN. Go ahead.

Mr. STUART. The essential route concept applied to ore carriers would restrict American bulk carriers to one-way (import) cargo carrying.

Modification of this concept and provision of operating subsidy assistance to bulk carriers rather than ore carriers—under proper regulation of the FMB—would provide the flexibility needed to assure our ore imports and protect carriage of our bulk cargoes.

Adoption of a legislative program along such broadened lines would, I am confident, be a long step in the only possible direction toward achievement of the aims and purposes of the Merchant Marine Act of 1936.

We also feel that additional help is required such as trade-in and trade-out of existing vessels in order to enable our members to obtain the necessary down payments.

Some of our members would be willing to trade-in existing Liberty ships, if construction and operating subsidy were available, for new ore carriers.

We also suggest the feasibility of selling Liberties to foreign registry with the commitment of funds received from such sales required to be applied to building the new ships. We feel that this trade-out is preferable to trade-in, as it reduces the cost of the new ore carrier program to the Government and, as our Government has over one thousand Liberty ships available in lay-up in the event of need for ships of this nature, does not handicap our defense program.

The trade-out program permits us to obtain what, in effect, is a subsidy from foreign buyers to be applied to new American construction. Moreover, by avoiding the cost to the Government of paying for the vessels traded in, such trade-outs to foreign account would reduce the cost of the ore-carrier program to the taxpayers of the United States.

The CHAIRMAN. Of course, that might help the ore-carrier program but then you are just putting some more ships in competition with tramp.

Mr. STUART. There is competition with the American ships, I mean the foreign vessels as such.

The CHAIRMAN. Well, you would add more to their fleets?

Mr. STUART. Well, you would have them there, but these are old ships, they are not new ships, their life is very short.

The CHAIRMAN. What you are saying then is that the type of ship they would get would not be as much competition, particularly, as if that could be used for some new modern ships.

Mr. STUART. Unquestionably.

The CHAIRMAN. On our side.

Mr. STUART. That is correct, sir. If we stop to consider the time element, by the time you started on such a program, by the time these ships were on the seas, I am sure those Libertys would not have much time left to go.

The CHAIRMAN. Who would want them then?

Mr. STUART. Well, you would sell them at a time when they would not be competing with the American vessel. In other words, the sale would take place at the time it required the downpayment; the market is fluctuating.

The CHAIRMAN. You think there is a market for them today?

Mr. STUART. Tremendous.

The CHAIRMAN. Despite their age?

Mr. STUART. Despite their age, they are giving a good income to their owners; therefore, they have a very substantial market value.

The CHAIRMAN. All right.

Mr. STUART. The members of our association are interested in making a bona fide and substantial investment of private capital in the American merchant marine.

We are not asking for any special consideration or favors, nor are we asking for a public handout. The ore and bulk cargo movement in the foreign commerce of the United States has increased tremendously during the last few years and this movement will become larger and more important in the years to come.

It is our contention that, from the point of view of promoting our commerce and insuring our national defense, American-flag operators using American-flag ships should enjoy a substantial participation in this movement.

Many of our members are ready, willing, and able to make the substantial monetary investment necessary to enable such ore and bulk carriers to become a permanent part of our American merchant marine. We feel that, if this investment should not be made within the immediate future, the entire market will be permanently preempted from American carriers and our merchant marine will be seriously hindered from proper development.

The only request our members present in their proposal to make this investment of private capital is that they receive relative equality or parity of investment and operating costs with the costs of foreign competitors.

The CHAIRMAN. I appreciate your statement.

Of course, it seems to me that this gets down to the fact that you people want to do it, the Department of Commerce wants to do it as evidenced by their letter. We all agree that the situation is getting more serious, but what it gets down to is that Congress better say so. Is that about it?

Mr. STUART. That is correct, sir.

The CHAIRMAN. I do think we ought to try, if we could, to explore the idea of clearing up with the Maritime Board just whether or not they could, other than what you suggest, take trade with essential routes—whether they felt they had authority to go further. I don't know just what procedure we might do. We might introduce a bill to that effect and ask them for comments or a letter from the committee, because as long as that is hanging fire, Congress might be a little reluctant to act. Somebody may say, "Why they can do it anyway; it is an administrative problem."

But we ought to get together on it, the two branches of Government. Because I think if anybody understands this need and can see what is happening, that within another year it may be far beyond our control, that they would want to do something, want to act some way.

Thank you, Mr. Stuart.

Mr. STUART. There is one question I wanted to point out, sir. You spoke before about the accelerated depreciation as that being an incentive to the building of these carriers. I wanted to indicate that would only apply when a ship was operating and making money.

Obviously, if you can't compete without your subsidies, accelerated depreciation is only academic.

The CHAIRMAN. It may be, but once you get operating, it is a nice thing to have.

Mr. STUART. If you get the first thing, which is the operational subsidy.

The CHAIRMAN. I understand there are some applications down at ODM to that effect?

Mr. STUART. Foreign carriers, are they?

The CHAIRMAN. I don't know. Mr. Ford testified he understood there were some applications.

Thank you, Mr. Stuart.

Mr. STUART. Thank you, Mr. Chairman, for the opportunity.

The CHAIRMAN. Now, Admiral Good.

Is ODM here?

Mr. COOLEY. Yes, sir.

The CHAIRMAN. I wonder if you could comment on this matter we brought up here now.

Admiral, you won't mind stepping aside just a moment?

Would you care to comment on whether or not there are applications to ODM by operators for accelerated depreciation?

Mr. COOLEY. Well, Mr. Chairman, I am not sure that there are any formal applications before ODM. I know that we have had inquiry, I think rather an informal inquiry for a certificate for two dry cargo ships.

The CHAIRMAN. Would you care to comment whether or not it has been the policy of ODM in the past to deny or grant such applications, either grant or deny?

Mr. COOLEY. From listening to the discussion I realize that your interest in ODM here has to do with the tax amortization situation, at least I presume that is it: I would say that in 1952 we established expansion goals for 38 foreign-going ore carriers and that goal was closed at the end of September, latter part of September of last year, 1955. Now, in that period three ships were built in American yards on which certificates were issued. There were 21 ships built in foreign yards. But, of course, tax amortization certificates are not issued in connection with construction other than in American yards.

The CHAIRMAN. But the point I am trying to get at is that ODM apparently has in the past looked with some favor upon this type of applications.

Mr. COOLEY. That is true.

The CHAIRMAN. In the interest of national defense.

Mr. COOLEY. That is true, and I am sure, well, we have had goals not only for foreign-going ore carriers but we had a goal for Great Lakes ore carriers and also for inland waterway vessels of all types.

The CHAIRMAN. Yes, I have a letter here dated March 13 in which your office, signed by Mr. Landry, who is Assistant Director, says:

As you know, we had at one time expansion goals which covered both inland waterway vessels of all types and Great Lakes ore carriers. These goals were closed on September 29, 1955, after careful review. However, it has always been our policy to review not only the existing open goals, but also any closed goal whenever a question is raised as to current defense need for the facilities involved. Accordingly, we are in this case requesting our delegate agency, the Interstate Commerce Commission, to furnish us at the earliest possible date, a complete study and review of these goals in order that we may properly evaluate the need to reopen them.

(The letter referred to above is as follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF DEFENSE MOBILIZATION,
Washington 25, D. C., March 13, 1956.

Hon. WARREN G. MAGNUSON,
United States Senate,
Washington 25, D. C.

DEAR SENATOR MAGNUSON: Mr. Flemming has asked me to get in touch with you regarding your letter of February 29 to him concerning the need for inland waterway vessels and the possibility of tax amortization being granted for the construction of this type vessel.

As you know, we had at one time expansion goals which covered both inland waterway vessels of all types and Great Lakes ore carriers. These goals were closed on September 29, 1955, after careful review. However, it has always been our policy to review not only the existing open goals but also any closed goal whenever a question is raised as to current defense need for the facilities involved. Accordingly, we are in this case requesting our delegate agency, the Interstate Commerce Commission, to furnish us at the earliest possible date a complete study and review of these goals in order that we may properly evaluate the need to reopen them.

We appreciate your interest in this matter and assure you that we will give full consideration to this problem as it relates to our national security, and will advise you of the decision.

Sincerely yours,

GEORGE A. LANDRY, *Assistant Director.*

Mr. COOLEY. That has to do with the Great Lakes; the Maritime Commission is our delegate agency for foreign-going ships.

The CHAIRMAN. And they have, as Mr. Ford testified, suggested that these foreign-going ships might be a proper subject for a review by the ODM for these certificates.

Mr. COOLEY. If there is any interest at all in this subject we will be very happy and anxious to have a review made.

The CHAIRMAN. Fine; I appreciate that. You are clearing it up. So we can say, then, the door is open.

Mr. COOLEY. We can say it certainly is open for a review.

The CHAIRMAN. Thank you.

All right, Admiral.

Mr. COOLEY. Is that all you cared from them?

The CHAIRMAN. I wanted to clear that up because there has been some doubt as to the general attitude. I appreciate that ODM must act on specific applications as they come, but we were interested as to the general attitude of the Office of Defense Mobilization on this broad subject.

Mr. COOLEY. But, of course, we must always keep in mind that that has only to do with construction in American shipyards.

The CHAIRMAN. That is right, and that is what we are trying to do, to get construction in American shipyards.

Mr. COOLEY. That is right. We are interested in that, also.

The CHAIRMAN. We sure need them.

Mr. COOLEY. Not only to keep the yards active but to keep the skills together and it is a very beneficial thing if that can be brought about.

The CHAIRMAN. We sure need them when we mobilize for defense.

Admiral, we will be glad to hear from you.

STATEMENT OF VICE ADM. ROSCOE F. GOOD, DEPUTY CHIEF OF NAVAL OPERATIONS (LOGISTICS)

Admiral GOOD. Mr. Chairman, my name is Roscoe F. Good. I am the Deputy Chief of Naval Operations for Logistics in the Office of the Chief of Naval Operations, Department of the Navy. Since it is usual for the Secretary of the Navy to be designated as executive agent for the Department of Defense in matters similar to that before the committee today, I appear in the dual status of Department of Defense and Department of the Navy witness.

Through the committee staff and the Navy Legislative Division, I am informed that the committee is concerned today with ore vessel construction and operation; that your concern extends to the considerable portion of strategic ores and bulk minerals which are imported into the United States, being transported in ships of foreign registry, and to the current scarcity of United States registered ore ships and the lack of current United States shipbuilding effort in this field. I also understand, from a year-long exchange of correspondence between representatives of the Department of Defense and the chairman of this committee, that you question the Department of Defense acceptance of the principle that ships now owned by United States citizens but currently operated under foreign registry are considered to be under "effective United States control."

I feel that the committee has inferred from this previous correspondence that the Department of Defense assumes an attitude of indifference toward this apparent void in the United States Merchant Marine structure.

To the extent that this fear may be justified, I should like to clarify the record by positively stating that the Department of Defense is at all times vitally interested in any effort which will result in improving the overall situation with regard to United States registered ocean-going tonnage in all categories.

The Department of Defense understands thoroughly the purpose of the Merchant Marine Act of 1936 to provide a Merchant Marine capable of operating as a naval or military auxiliary in time of war, and has accordingly strongly supported such remedial legislation as the so-called "trade in and build" and "long-term tanker charter" laws.

However, in furthering the efforts to improve the United States defense position, in accordance with the approved guidelines of the National Security Council, certain definite lines of responsibility must be drawn. Of these, I am sure the committee members are aware.

Specifically, with respect to merchant marine tonnage, the Maritime Administrator within the Department of Commerce is assigned primary cognizance and responsibility for implementing the approved policy and statutes of the United States. In normal procedure, the Department of Defense, having reviewed the war plans approved by the Joint Chiefs of Staff, develops a requirement for transportation of United States military personnel and materials.

The other elements are assembled and correlated through the Office of Defense Mobilization, wherein essential civilian requirements are added in order to arrive at the total national requirement.

At present the Department of Defense review of requirements for ocean shipping is treated in three categories wherein actual or predicted deficits exist or are expected to exist during a period of mobilization. These three categories are: (1) Passenger ships or troop ships, (2) tankers, (3) dry-cargo vessels.

Except for petroleum, bulk carriers have not been considered as a separate category. Each of the three categories presents a problem peculiar to its field and the type of ship involved. The Department of Defense has no information at this time to indicate a shortage against planned mobilization requirements of strategic ores and bulk minerals; hence, the Department of Defense has not applied the same pressure in this area that it has with respect to bulk petroleum.

With respect to the control in time of emergency which the United States might exert over ships owned by United States citizens but operated under foreign registry, two circumstances must be considered. The first applies to ships which, once under United States registry, have been transferred to foreign registry. Such transfers can only be effected with the concurrence of the Secretary of Commerce.

In each case the question has been referred to the Secretary of the Navy for advice. In each case a careful investigation of the individual circumstances is made, and affirmative advice is given by the Department of the Navy only when there is reasonable assurance that the ship will come under effective United States control in time of

need. Furthermore, the owner is required to deposit a surety bond with the Maritime Administrator.

The second circumstance applies to ships which have never been under United States registry; that is, ships which, although owned by United States citizens, were built either in United States but more probably in foreign shipyards for initial foreign registry. Even in this latter case there is some assurance that the ships would be available to a war effort.

Eighty-five percent of the world's oceangoing tonnage is owned by the member nations of the North Atlantic Treaty Organization, who have agreed to take their shipping under national control on D-day and pool it in the common war effort. If the vessels are in fact owned by United States citizens, the Secretary of Commerce can requisition or purchase them in case of a national emergency declared by the President. Furthermore, it has always been my practical experience that in time of war ships are available for charter only to those who can indemnify the private owner against loss and pay him the freight rates he expects.

There is existing legislation which offers particular incentives to private United States ship owners and operators to construct merchant vessels within the United States and for United States registry. Such items as a differential construction subsidy, mortgage insurance, and Government payment for defense features are all sound measures, and the Department of Defense has wholeheartedly supported their application by the Department of Commerce.

The Department of the Navy has been prompt to review each proposed design to determine whether it would be suitable for ready conversion to a naval or military auxiliary or otherwise desirable for the national defense, and has made the necessary certification to the Maritime Administrator in every case warranted in order that increased capability within the United States merchant marine might be made available.

As to what might be done by additional legislation or other incentives to build ships in the United States shipyards for United States registry to carry bulk ores, I can only offer the opinion that a liberal interpretation of the existing statutes and timely, adequate appropriations for the payment of Government cost related to differential construction and operating subsidies and for defense features would be helpful.

Thank you, sir.

The CHAIRMAN. Well, Admiral, we appreciate your statement and, of course, we are familiar with all these laws, most of them come through this committee. In fact, the chairman has written most of them.

Admiral GOOD. Probably much more so than I am, sir.

The CHAIRMAN. But you heard the testimony here today, that even though they exist we still are in the position where we are not building a single ore carrier in the United States yards and that the decline of our tramp shipping is becoming serious.

Now, I do not say that the Navy has an indifference to this, or the Department of Defense. Maybe there has not been as much awareness as we think there should be and maybe you are very aware of it, but we were hopeful that the Department of Defense and the Navy, becoming aware of this situation, would put their shoulders

to the wheel with all of us in hopes that we might remedy the situation.

I think it would be serious defensewise if something should happen or this situation permitted to be continued. I think you must agree with me on that, do you not?

Admiral GOOD. I can say quite honestly, Mr. Chairman, that in my opinion the best ship from the standpoint of national defense is the one which is owned by an American citizen, flies the American flag, and is gainfully employed making a profit for its owner on D-day. That is the best ship.

The CHAIRMAN. That is the best possibility we have.

Admiral GOOD. That is the best ship.

The CHAIRMAN. And that is what we are trying to achieve. I appreciate that in NATO we have this agreement, but in World War II, we had the same in some cases—not a written agreement—but the same feeling among maritime countries engaged with us, our allies, that their shipping was available. As a practical matter, however, it was not their desire that was lacking, but we could not get at the ships and we had to rely upon our own shipping.

I know you are familiar with the figure—I think our private American merchant marine carried over 95.6 of our tonnage in World War II and we had to build that up despite the fact that there was other tonnage of the free world. But they said we would like to give you our ships in many cases, and we all belong together, we are in the same boat, but we need them for our purposes. And I think you will find that, for some reason or other, even if something broke out tomorrow, even though they were pledged to NATO to pool their ships, there would be a tendency to draw them back to the countries in which they are registered because they would feel they needed them. And that is what bothers me.

I went through this experience and I am sure you did. You have enough ribbons on to tell me that. But it was a most difficult thing for us to build back our merchant marine to take care of the needs and the responsibilities we had, and although it is nice to say that we are all under a NATO pool we find that we have got to help ourselves when something happens. The desire was there; they could have been ours, but they were caught. We never did see that tonnage.

I could envision that again. That is what bothers me about ore carriers. We would have to triple present supplies of ore tomorrow if something happened. And we do not have the bottoms and I do not know where those foreign ships would go.

Admiral GOOD. Actually, Mr. Chairman, you have me at the moment in an area which is much more the concern of the Office of Defense Mobilization than it is of the Navy.

The CHAIRMAN. I understand that. I am sure we will get the cooperation of Defense, but this is a serious matter that we ought to be all looking at and Defense in particular. You cannot pass the laws, but you can be very helpful, as far as the Maritime Administration is concerned, to say that we are with you in this effort to do something.

I do not think, I hate to say this, but I do not think that, as a practical matter, although the desire is there, and everything else,

if something should happen we could rely upon the NATO ship pool to take care of what we need in this country alone.

Admiral GOOD. One of the most significant points there, sir, is the total size of the world's fleet today.

The CHAIRMAN. Total size?

Admiral GOOD. Compared to the need as to what it was in 1940.

The CHAIRMAN. Well, that is right, what it was in 1940. We have more available ships we can break out. This is off the record.

(Discussion off the record.)

The CHAIRMAN. Back on the record.

Well, thank you, Admiral. We appreciate your statement.

Mr. Moody? Is Mr. Moody here?

Mr. MOODY. Yes, sir.

The CHAIRMAN. All right, we will be glad to hear from you.

STATEMENT OF JOSEPH E. MOODY, PRESIDENT, SOUTHERN COAL PRODUCERS ASSOCIATION

Mr. MOODY. Thank you, Senator.

My name is Joseph E. Moody. I am president of the Southern Coal Producers Association, but here today I am speaking more from the standpoint of being chairman of what is known as the Bituminous Coal Export Committee.

In all probability I am here more or less on the other side of the coin of the testimony that has been said here before, in that your major concern seems to be that of the importation of ores. Our major concern is that of the export of coal.

I think the Senator has been in on hearings when the coal industry has been in at one time or another, lying flat on its back, and asking you to give us a leg up and get us back at least on our knees. One way or other we have got back on our feet. Part of that has been last year's export of some 36 million tons of coal to European, South America, Japanese, and other countries.

This year, it is started off at even a better rate than that and we are kind of hopeful that we may hit 40 million tons. One of our big problems is that of competition. I am speaking now of competition in the fuel markets of the world.

We have in Europe today a change in economic situation that we believe indicates a long-term export market. In other years we have had a coal export market that came and went. When we had it, we were very happy to have it. When it went, we just said "Well, that is it."

Now, there have been several factors, one is an increase in standard of living, another is a major increase in energy demand, and the third is a conviction on the part of the coal producing countries of Europe that they cannot expect any major increase in their total tonnage of coal.

However, in order to sell any commodity for any length of time your customer has to be satisfied as to the quality and service, and also you have to be satisfied as to price.

We put together this Bituminous Coal Export Committee, which is a commission of the railroads that serve the southern field, the Norfolk & Western, C. & O., and the Virginian, the chief exporters of coal,

the main producers of the coal that is exported, and the United Mine Workers of America, Mr. Lewis, representing that organization.

We have done quite a lot of exploration work, and we come to the very definite situation of the variability of charter rates on the export of coal on what can be generally spoken of as the route from Norfolk to Rotterdam, that is a standard run. Here I will quote from the Saturday, March 10, New York Times. This was a statement by Mr. Walter J. Toohey, president of the Chesapeake & Ohio, in which he cited one of the problems that we have found in this export of coal, and noted that the organization shipping rates on coal have run from $4 to $18 a ton.

Well, you can imagine what a German railroad operator runs into when he finds that kind of a variation in just his transportation costs after he gets to Norfolk.

There has never been any actual ship group for the carrying of coal because of the rather temporary and marginal character of this export trade. We feel that this 34 or 40 million tons, which in toto, overall transportation and all, is better than a billion dollars a year in international trade, is something that we ought to hang onto. It is the difference between hard scrabble and profit in our southern fields, in the West Virginia, Virginia, Kentucky, Tennessee, and Alabama fields. It is the difference between profit and stabilized price in practically all of our domestic coal markets. So it is important to us internally.

Now, when it comes to the matter of shipping, practically all of that coal is tramp shipping by charter. We have been to the State Department, Department of Commerce, and the Maritime Administration, and I might say here, Mr. Clarence Morse, who I understand is head of the Maritime Administration, told me within the last 72 hours that the matter of operational subsidy was impossible under these circumstances, so I am sure it was a sincere opinion on his part.

So we have asked the Maritime Administration to look into and give us in complete detail everything they can as to the availability of ships, anywhere from 1 to 50, large tonnage ships.

It is extremely difficult to load and just as difficult to unload.

We are hoping that within a very short time we can get into the construction of modern coal carriers which are very similar to these ore carriers. As a matter of fact, we are trying to work out some kind of a deal where we can get a three-cornered operation, coal from Norfolk to Rotterdam and ore from Liberia to Baltimore, and we hope we can work something like that out. But, as indicated here today, my negotiation is with the various shipping companies. We have talked with people in France, in Germany, Sweden, England, Italy, and our own American lines. I find absolutely no interest in this trade which one man indicated had probably $100 million of profit if he could operate it perfectly, as foreign operation is, with modern coal carriers in the next 10 years. No interest at all in American ships.

And they point out to me, just as specifically as was pointed out here today, that in order to construct American ships in American yards you are some 50 percent up, and in order to operate you are some 60 percent higher at the best.

And under those circumstances we have made no formal applications, in case you were going to ask me that, for the simple reason

that we would not intend to operate it. We do know of a half dozen operators, however, who would be interested in this if we would pool this tonnage and head it into new ship operation. However, in each case they are operators who would have foreign construction and foreign operation. And time is running out. We are right up against the old log right now, and I don't know what the Congress is going to do or what the Maritime Commission is going to do. But if Mr. Morse comes back after my rather detailed inquiry and says, "Mr. Moody, we are sorry," we are going to have to turn around and do business with these other fellows.

Germans are interested, a group of Greek operators are interested. I am told also by some English people, "After all, Americans never did know how to run these ships."

The CHAIRMAN. Is that what they said?

Mr. MOODY. Anyhow, I mean that is a place for argument. You understand, a place for argument. But there is a man in New York today and he is starting to build some ships in Sweden for the Stennis group in Germany. They will be foreign ships, they intend to put them into the trade, very frankly, modern ships. That is a 25,000-ton coal carrier. If it was put into the trade today he could cut that costwise running now anywhere from 8 to 12, 13 dollars a ton, depending on spot or long-term, to probably $4.50 a ton.

In that case, we can lay coal in Hamburg within a dollar and a half a ton of the Ruhr. I think it does have a defense angle. I listened to the Admiral very closely. Obviously he is rather lukewarm on the whole thing but I think there is a tie-in on it. I know that in dealing with one German group they said well, we will be willing, if you will get us the money. We will build the ships and we will operate foreign, but we will put in a note that in case of emergency the ships will become available for American use. I couldn't help but just laugh out loud. How are you going to be able to get hold of the German ship if it happened to be in Hamburg and we are over here?

The CHAIRMAN. I think your analysis is very good. That is exactly what happens.

Mr. MOODY. I just laughed out loud. I said let's not get silly. We are talking here about hundreds of millions of dollars. If you are going to just buy a clause, "I am going to be a good boy if I get in a fight with you," I am not interested. It doesn't make sense.

The CHAIRMAN. They are willing, as I said before, but if we are going to have to rely on the NATO pool, we are going to have to scale down what we hope will be available. Not because the people don't want to, but because of the practicality of the situation and some of them will want to keep them at home anyway.

Mr. MOODY. I think we are old enough to know in case of emergency that honor among nations gets awfully thin.

The CHAIRMAN. And a desire written a few years before doesn't mean much?

Mr. MOODY. Not much. But we are up against a tough proposition. If you can do anything for us, we want you to. We will cooperate in any way we can. We have got the strongest kind of a committee. It is the first time the industry has ever set down together. We would like to operate with American ships but, by golly,

the arithmetic just escapes us right now. And the Maritime I don't believe sincerely believes, and I am not critical of them at all. I think within 5 minutes of the time I started to talk with Mr. Morse, he was peddling high speed to see what he could do. We have T-2 tankers which we have suggested might be converted into coal carriers within a matter of 90 days; I understand in that instance we have to get naval approval and that is not forthcoming. They want to hang on to them for reserve.

The CHAIRMAN. The point you are making is that you would like to see this carrier program developed so that you can have available American ships and do the job that you have now organized to do.

Thank you very much.

Mr. MOODY. Thank you.

The CHAIRMAN. Well, I think we had better give the reporter a recess here for about 5 minutes.

We will recess for 5 minutes.

(Thereupon, a brief recess was taken.)

The CHAIRMAN. The committee will come to order.

We have a statement from the Industrial Maritime Union regarding shipbuilding and tankers and ore vessel construction which will be put in the record. And the last witness, Hoyt Haddock, will put his statement in the record and make a few brief remarks.

STATEMENT OF HOYT S. HADDOCK, EXECUTIVE SECRETARY, AFL-CIO MARITIME COMMITTEE

Mr. HADDOCK. Mr. Chairman, that is as brief as you can get. You are familiar with the entire ground we cover in the statement and there is no use of reiterating it. It will be there for the record and if there are any questions that come up later on, we will be happy to try to answer them.

The CHAIRMAN. I think we ought to point out what my friend the Congressman mentioned there, that these people that are relying upon NATO ships will find that in World War II, not only did we get very few ships but we built some ourselves and turned over to them.

Mr. HADDOCK. We furnished them more ships than they actually had at the beginning of the war.

The CHAIRMAN. Yes, and that is going to be our problem. And in ore carriers it is going to be worse.

Mr. HADDOCK. You said we would probably need three times as many ore carriers. I don't have the figures but my recollection is that our ore requirements during the war more than tripled, this is World War II. Now, assuming that they simply triple, that will mean our ship requirements will have to go up about 10 times because the haul will be to foreign shores which are thousands of miles—compared to the hundreds of miles that we had on the lakes.

The CHAIRMAN. Do you agree with my statement to the Admiral that if something happens to the Suez Canal we will have to double our tonnage?

Mr. HADDOCK. No question of that.

The CHAIRMAN. Go around the Cape of Good Hope thousands of miles, and I am not sure that isn't what the Russians are planning.

Mr. HADDOCK. I would think they are as smart as we are. We have to give them credit for it anyway.

The CHAIRMAN. Thank you, Hoyt, for your testimony.

The prepared testimony of Mr. Haddock will be made a part of the record at this point. I would like also to place in the record a letter from Frazer Bailey.

(The documents referred to above are as follows:)

STATEMENT SUBMITTED BY HOYT S. HADDOCK, EXECUTIVE SECRETARY FOR THE AFL-CIO MARITIME COMMITTEE, BEFORE THE MERCHANT MARINE SUBCOMMITTEE OF THE SENATE INTERSTATE AND FOREIGN COMMERCE COMMITTEE, MARCH 14, 1956

ORE VESSEL CONSTRUCTION AND OPERATION

My name is Hoyt S. Haddock. As executive secretary, I am appearing on behalf of the AFL–CIO Maritime Committee. The membership of this committee consists of Joseph Curran, president, National Maritime Union of America; Herbert L. Daggett, president, National Marine Engineers Beneficial Association; John Grogan, president, Industrial Union of Marine and Shipbuilding Workers of America; David J. McDonald, president, United Steelworkers of America (maritime workers); and William Steinberg, president, American Radio Association.

For years we have been greatly disturbed by the trend which shows the large American steel companies operating ore carriers through their foreign-flag subsidiaries and/or utilizing foreign-flag ore carriers of unaffiliated foreign companies. Also, it is most distressing to note that these large corporations are constructing all of their new ore carrier tonnage in foreign yards for foreign-flag operation.

We commend you, the members of the Merchant Marine Subcommittee of the Senate Interstate and Foreign Commerce Committee, for holding these hearings. This should prove most beneficial and vital for the development of our domestic economy in peacetime and for the defense of our Nation and the free world in time of war.

Have or have not nation

In modern history, nations and peoples of the world have been classified in "have" and "have not" categories. These classifications have been and are based on the general level of economic activities of nations and the resulting standards of living of their people. Our United States has rapidly risen to the top of the list of "have" nations. The general gage for our high rating is the phenomenal expansion of our gross national product showing a sharp increase of capital investment and consumer's purchasing power. The specific analytical instrument used to show our increasing national wealth is the comparison of foreign and United States per capita ownership and utilization of such commodities and services as automobiles, homes, telephones, clothing, food, and even commercial amusements.

Unfortunately, unless we are confronted by an immediate national emergency our Nation does not seem to realize that we have become a "have not" nation in many respects. The machinery of our productive power is geared to and lubricated by the import of raw materials such as oil, tungsten, manganese, and iron ore. The import of these raw materials has become necessary and vital because they have either never been available within the geographic boundaries of the United States or our basic American source has been depleted. This is especially true of the raw materials utilized by our steel and other metallic industries.

Not too many years ago our Nation was completely self-sufficient in the basic metallic ores with the exception of certain hardening materials such as manganese and tungsten. This was certainly true for iron ore which was mostly mined in the great Mesabi Range. In recent years, however, we have become increasingly dependent upon the import of the basic metallic ores from foreign overseas countries. This is the result of three major factors, namely, (1) the depletion of iron ore in America; (2) the sharp decrease in iron content in American iron ore; and (3) the discovery and development of high-content iron ore in such countries as Brazil, Liberia, Venezuela, Labrador, and Peru. For example, the iron content of the taconite ore mined in the United States is only 30 percent as compared with the foreign ore content of over 50 percent.

Thus, with the depletion of our iron ore both in quantity and quality and the opening of rich foreign ore fields, our Nation will become more and more dependent upon the foreign mines and also the ocean transportation of these ores.

Exhibit 1 illustrates the growing importance of United States imports of bulk ores which are transported by ocean carriers. This exhibit shows that in 1954 we imported a total of 25,824,000 long tons of metallic ores. More than half of this tonnage was iron ore which totalled 13,801,000 long tons. Sixty-nine percent of the ore imported into the United States during 1954 was carried in foreign-flag ships. Only 31 percent was carried in American-flag ships. Moreover, excluding the 4,748,000 long tons of ore carried in American bottoms and discharged in Baltimore (a dominant Bethlehem Steel Co. operation), American-flag ships carried only 2,619,000 long tons of iron ore imported into the United States during 1954. Thus, our ships carried only slightly over 12 percent of our total ore imports other than those discharged in Baltimore.

The above problem will become more acute with the passage of time. Experts have conservatively estimated that within a decade our Nation will be importing 50 million tons of iron ore annually. This, with the increase of importation of other metallic ores such as chrome, tungsten, and manganese, should convince us that we must prepare for the future by building adequate ore carriers in American shipyards and operating them under the American flag.

Recently, the maritime experts of the New York Journal of Commerce and Commercial estimated that 2 million deadweight tons of ships would be required to carry the 50 million tons of iron ore which we will be importing in the near future. The average deadweight of ore carriers being built by American companies in foreign yards for foreign-flag operation is approximately 26,000 deadweight tons. Applying this average deadweight tonnage to the estimated required total tonnage, we find that 77 ore carriers would be needed to carry 50 million tons of iron ore a year. Even if the import of the bulk ores, other than iron ore remains constant, another 39 ships will be carrying those ores. Thus, a total of approximately 116 ore carriers will be carrying bulk ore to the United States in the near future. Certainly, they should be American-flag ships built in American yards. This would revive our depressed shipbuilding industry and assure our Nation of an important segment of the merchant marine.

United States companies operate foreign-flag ore ships

Despite our increasing dependence upon the import of vital metallic ores, our large American corporations are predominantly utilizing foreign-flag ships for carriage of these ores. As of June 1, 1955, there were only 12 ore carriers, aggregating 278,126 deadweight tons, registered under the American flag. Nine of these carriers were owned by the Bethlehem Steel Co. and three by the American-Hawaiian Steamship Co. The list of these ships is shown in exhibit 2.

On the other hand, foreign-flag subsidiaries of American companies on June 30, 1955, were operating 20 ore carriers, aggregating 384,236 deadweight tons. The detailed breakdown of these figures is shown as exhibit 3.

It should be noted that of the 20 ore carriers, 17, aggregating 197,646 deadweight tons, were operated by foreign subsidiaries of 5 large American corporations whose major business enterprises are conducted within continental United States. These companies are the Aluminum Company of America, Inc.; Bethlehem Steel Co.; Republic Steel Corp.; Reynolds Metals Co.; and United States Gypsum Co. To them the shipping costs of metallic ores are incidental to their major operations.

The prize example of the shortsightedness and selfishness of a wealthy American corporation is that of the United States Steel Co. This company, during 1954, had 2,122,000 long tons of iron ore discharged at their Morrisville, Pa., plant. This plant is often referred to as the greatest steel mill in the world. Of this 2,122,000 long tons of iron ore, only 40,000 tons or 1.9 percent were carried in American ships. The remaining 98.1 percent of the ore was carried in foreign bottoms. We are certain that if the officials of the United States Steel Co. or other American companies carefully analyzed the short-range and long-range views of company profits and national security, they would build ore carriers in American shipyards and operate them under the American flag. It is noteworthy to observe that the officials of the United States Steel Co. are cognizant of the needs of our national security when it fits their purpose. For example, this company is urging the United States Government to dredge the Delaware River to their Morrisville plant. They state that our Government should pay for the dredging of the river because it is a service to our national defense. Yet, the same

company completely disregards the necessity of using American-flag ships to carry the ore. This is completely inconsistent reasoning and should be so pointed out to the company.

In comparing the building dates of the American-flag ore carriers contained in exhibit 2 and the foreign-flag ore carriers contained in exhibit 3, we find that the American companies have all of their more modern ships under foreign flag. Exhibit 2 shows that the oldest ore carrier under the American flag was built in 1922, and the newest was built in 1948. This is most deplorable when we consider the fact that the great number of ore carriers built in foreign yards for foreign-flag operation by American companies were built after 1950. Also, it is clear that since 1948 our Nation is relying more and more upon foreign-flag bulk carriers to transport the metallic ores necessary for the maintenance and expansion of our economy and for our national defense. Moreover, not too long ago the Bethlehem Steel Co. notified you that they were seriously thinking of selling their American-flag ore carriers and utilizing foreign-flag ships. This would mean the elimination of the small existing American-flag ore fleet. We hope you will not permit this to happen.

United States companies building foreign-flag ore ships

Exhibit 4 is entitled "Seagoing Ore Carriers of 1,000 Gross Tons and Over Under Construction and/or on Order for the Account of United States Companies and Their Affiliates and for Registry Under Foreign Flags as of June 30, 1955." This exhibit shows that on June 30, 1955, United States companies were constructing 18 ore carriers, aggregating 627,900 deadweight tons, in foreign yards for foreign-flag operation. While these American companies are having the ore carriers built in foreign yards, which have more orders than they can possibly fill in the next few years, our own shipyards are still depressed. At the present time, the United States is No. 10 nation in ship construction. Our private shipyards are constructing less than 2 percent of the merchant-ship construction in the world. The ranking order of the leading nations is as follows:

Country	Number of ships	Gross tons	Percent
Great Britain	462	4,417,002	24.8
Japan	195	3,096,000	17.4
Germany	311	2,650,701	14.9
Holland	172	1,667,412	9.3
Sweden	157	1,600,500	9.0
Italy	99	1,186,190	6.6
France	112	1,155,916	6.5
Norway	76	740,493	4.1
Denmark	62	391,150	2.2
United States	25	312,460	1.7
Total	1,760	17,820,545	100.0

On January 1, 1956, our private shipyards were constructing and had orders on hand for only 25 merchant ships, aggregating 312,460 gross tons. This is a drop in the bucket, considering that the shipyards of the world were constructing or had orders on hand for 1,760 ships, aggregating 17,820,545 gross tons. Of the ships being built in American shipyards, only 2 are ore carriers. These 2 ships, being built for the Bethlehem Steel Co., are small ships of only 6,000 deadweight tons each. These are, indeed, small ore carriers when compared with the ore carriers being built by American companies in foreign yards. Some of those ore carriers are over 60,000 deadweight tons. This picture is even more appalling when we realize that Bethlehem Steel is building even these 2 small ships for foreign-flag operation. They will be operated under the Venezuelan flag by a subsidiary of Bethlehem Steel.

Solutions of the problem

Probably the most direct method of getting ore carriers built in American yards for American-flag operation is that of selling our large American corporations the philosophy that they have a long-range stake in the national security of our Nation and the free world. If this philosophy were accepted, the billion-dollar corporations would not place our national security in jeopardy because of the few extra dollars in profits they realize by constructing and utilizing foreign-flag ore carriers. However, being realistic, we do not expect the large corporations to be swayed by such arguments. We are certain that the large American steel

corporations, as well as the American oil companies, will continue their foolish and short-range policy of utilizing foregin-flag shipping despite its resultant danger to our national security. Therefore, we believe that you should fully explore alternative methods which would result in an adequate American-flag ore-carrier fleet.

An adequate United States-flag ore-carrier fleet is important enough for our Government to support it by construction subsidy and by operating-differential subsidy. Along these lines, it is heartening to note that the Maritime Administrator wrote an optimistic letter to Senator Magnuson on December 1, 1955. This letter stated that the Maritime Administration believes that construction subsidy aid for Amreican-flag ore carriers is authorized under the Merchant Marine Act of 1936, as amended. The letter also states that the Maritime Administration believes that operating subsidy may be granted under the 1936 act, provided the ore carriers "are to be used in an essential service in the foreign commerce of the United States." Frankly, we see no problem in this respect, because certainly the ore-carrying trade routes can be considered essential trade routes of the United States.

The Maritime Administrator's letter pertaining to operating subsidy for American-flag ore carriers states:

> "* * * However, since operating-differential subsidy assistance has been given only in connection with the operation of common carriers, the Maritime Administration believes that, as a matter of policy, the extension of operating-differential subsidy assistance to ore carriers should be undertaken only after complete executive and legislative examination into the details thereof, especially the estimated costs."

As far as the "common carrier" aspect of this issue is concerned, we certainly hope that any ore carriers receiving operating-differential subsidy will be common carriers insofar as they will be operated by companies other than the big steel companies or subsidiaries thereof, and the ships will be available for the carriage of ore to any and all of the ore-importing United States companies. In other words, we do not believe that the United States Government would or should provide operating-differential subsidy to the industrial carriers owned and operated by the large United States steel and other metallic-industry corporations.

In his letter to Senator Magnuson, the Maritime Administrator suggests in very hedgy language that a possible alternative solution of the ore-carrier problem exists in the cutting of manning scales in order to cut costs. This proposal suggests that American-flag ore carriers are overmanned. We certainly do not agree with that conclusion. Moreover, we believe that you should request the Maritime Administration to submit to you the detailed analysis upon which they base their conclusion. In order to be of the slightest value, the Maritime Administration's analysis must contain a complete comparison of United States-flag and foreign-flag merchant ship manning by type of ship and trade route. It must also contain a detailed breakdown of their proposed manning scales showing that any cut in present manning does not in any way jeopardize the safety of life and ship at sea, nor destroy fair and reasonable working conditions aboard ship. Unless the Maritime Administration can present such an objective and realistic analysis, we are afraid that their arbitrary proposal to cut United States manning scales is based merely upon flashes of vivid but unrealistic emotionalism.

We commend you for tackling this important problem before it is too late. We know that you realize fully the danger of finding ourselves unprepared to meet the threat of aggression which is hanging over us and the free world. We are hopeful that you will decide to convince our Government to never lose sight of the fact that even in this atomic era we are still in the steel age. Atomic power is a source of energy and in no way displaces our present or future reliance upon our steel and other metal industries. Thus, we can close our statement with the warning that our great technological advancement and production capacity can be rendered completely impotent by cutting off the source of our basic raw materials. This can most easily happen if we do not provide an adequate American-flag merchant marine, including an ore fleet, to link our productive giant with our overseas sources of basic and vital raw materials.

EXHIBIT 1

United States imports of bulk ores during 1954

[In thousands long tons]

	Imports	In foreign ships	In United States ships	Percent on United States ships
By type carriers:				
Industrial carrier	9,947	4,265	5,682	
Tramp	13,178	12,345	833	
Liner	2,699	1,197	1,502	
Total	25,824	17,807	8,017	31.0
Principal carriers of foreign portion:				
1st—Panama	4,152			
2d—United Kingdom	2,053			
3d—Norway	2,045			
4th—Italy	1,790			
Total	10,040			
By character of principal ores:				
Iron ore	13,801	8,906	4,895	35.5
Bauxite	5,272	3,611	1,661	31.5
Gypsum	2,796	2,464	332	11.9
Manganese	2,044	1,731	313	15.3
Chrome	1,130	770	360	31.9
Total	25,043	17,482	7,561	30.2
Ports of discharge:				
New York	1,320	1,059	261	19.8
Philadelphia	2,852	2,359	493	17.3
Morrisville (iron ore)	2,122	2,082	40	1.9
Baltimore	9,575	4,827	4,748	49.6
Mobile	4,071	2,649	1,422	34.9
Baton Rouge	1,765	1,662	103	5.8
Corpus Christi	1,231	931	300	24.4
All other ports [1]	2,888			
Total	25,824	15,569	7,367	28.5
Deduct United States ship carriage to Baltimore where Bethlehem operations dominate	4,748	4,748		
Total	21,076	2,619		12.4

[1] Source: Maritime Administration, U. S. Department of Commerce. United States-flag and foreign division not shown for "all other ports."

EXHIBIT 2

United States-flag seagoing ore carriers of 1,000 deadweight tons and over—June 1, 1955

Name of ship	Company	Year built	Gross tons	Deadweight tons
SS. Baltore	Ore Navigation Corp. (Bethlehem)	1948	8,914	23,957
SS. Chilore	do	1946	8,564	24,427
SS. Cubore	do	1948	8,913	23,909
SS. Feltore	do	1946	8,556	24,427
SS. Marore	do	1946	8,558	24,427
SS. Santore	do	1948	8,564	24,300
SS. Steelore	do	1922	8,215	22,980
SS. Venore	do	1945	8,561	24,000
SS. Oremar	Oremar Navigation Corp.	1946	8,556	24,427
SS. Californian	Ore Transport, Inc (American Hawaiian)	1946	13,596	20,521
SS. Hawaiian	do	1946	13,923	20,552
SS. Texan	do	1946	13,538	20,559
Total			118,458	278,126

Source: U. S. Maritime Administration, Department of Commerce.

EXHIBIT 3

Seagoing bulk and ore carriers of 1,000 gross tons and over registered under foreign flags as of June 30, 1955, arranged by parent company and their affiliate

[Includes only those parent companies incorporated in the United States]

Parent company, affiliate, and name of ship	Country in which built	Year built	Dead-weight	Gross tons	Flag
Grand total (20 ships)			384,236	201,574	
ALUMINUM COMPANY OF AMERICA, INC., 801 GULF BLDG., PITTSBURGH, PA. (6 SHIPS)					
Alcoa Steamship Co., Inc., Pan-Ore Steamship Co., 17 Battery Pl., New York 4, N. Y.:			47,140	31,483	
Pathfinder	United Kingdom	1950	7,730	5,466	Panama.
Prospector	do	1950	7,730	5,466	Do.
Wanderer	Sweden	1953	7,730	5,267	Do.
Dispatcher	United Kingdom	1953	8,000	5,302	Do.
Wayfarer	Sweden	1954	8,000	4,944	Do.
Discoverer	United Kingdom	1955	7,950	5,038	Do.
BETHLEHEM STEEL CORP. (3 SHIPS)					
Bethlehem Steel Co., c/o Ore Steamship Corp., 25 Broadway, New York 6, N. Y., and Iron Mines Co. of Venezuela, 701 East 3d St., Bethlehem, Pa.:			22,793	10,273	
Punta Aramaya	United States	1950	7,618	3,425	Venezuela.
Punta Morocoto	do	1951	7,618	3,425	Do.
Punta Cabrian	do	1952	7,557	3,423	Do.
LUDWIG, D. K., 630 5TH AVE., NEW YORK 20, N. Y. (3 SHIPS)					
Universe Tankships, Inc.:			180,000	63,737	
Ore Chief	Japan	1954	60,000	20,910	Liberia.
Ore Transport	do	1954	60,000	21,910	Do.
Ore Titan	do	1955	60,000	20,917	Do.
REPUBLIC STEEL CORP., NEW JERSEY (4 SHIPS)					
Skibs A/S Orenor:			93,390	71,689	
Enduro	United Kingdom	1952	23,870	17,818	Norway.
Bomi Hills	do	1952	23,870	17,853	Do.
Chateaugay	do	1954	21,700	18,019	Do.
Moisie Bay	do	1955	23,950	17,999	Do.
REYNOLDS METAL CO., 3D AND GRACE STS., RICHMOND 19, VA. (1 SHIP)					
Tropical Steamship Co., Ltd., care of Reynolds Jamaica Mines, Ltd., Lydfold Post Office, St. Ann, Jamaica:					
Carl Schmedeman	United Kingdom	1952	13,150	10,839	Other colonies.
UNITED STATES GYPSUM CO. (1 SHIP)					
Gypsum Packet Co., Ltd., 561 Richmond Terrace, Staten Island, N. Y.:					
Gypsum King	United Kingdom	1927	6,587	3,915	United Kingdom.
			21,176	9,638	
Panama Gypsum Co., Inc., 2d St., No. 8, Panama, Republic of Panama (2 ships):					
Gypsum Prince	United States	1947	10,588	4,819	Panama.
Gypsum Queen	do	1947	10,588	4,819	Do.

Source: Maritime Administration, U. S. Department of Commerce.

EXHIBIT 4

Seagoing ore carriers of 1,000 gross tons and over under construction and/or on order for the account of United States companies and affiliates and for registry under foreign flags as of June 30, 1955

Parent company, affiliate, and name of ship and/or hull No.	Country in which building	Dead-weight	Gross tons	Flag for which building
Grand total (18 ships)		627,900	438,400	
Aluminum Company of America, 801 Gulf Bldg., Pittsburgh, Pa. (2 ships):				
Alcoa Steamship Co., 17 Battery Pl., New York, N. Y., and Pan Ore Steamship Co., 17 Battery Pl., New York 4, N. Y.		59,000	38,500	
Sentinel	Sweden	26,000	18,500	Panama
Leader	United Kingdom	33,000	20,000	Do.
Hendy, Joshua Corp., 612 South Flower St., Los Angeles, Calif. (5 ships):				
Hendy International Corp.		172,500	139,500	
711	Germany	34,500	27,900	Unspecified.
712	do	34,500	27,900	Do.
715	do	34,500	27,900	Do.
715	do	34,500	27,900	Do.
716	do	34,500	27,900	Do.
M. A. Hanna Co., 1300 Leader Bldg., 524 Superior Ave. Corner East 6th St., Cleveland 14, Ohio (2 ships).		64,000	44,000	
Sept Iles	United Kingdom	32,000	22,000	Unspecified.
1841	do	32,000	22,000	Do.
Ludwig, D. K., 630 Fifth Ave., New York 20, N. Y. (6 ships):				
Universe Tankships, Inc.		277,000	174,400	
55	Japan	55,000	32,400	Liberia.
47	do	30,200	22,000	Do.
48	do	44,600	28,000	Do.
49	do	44,600	28,000	Do.
50	do	44,600	28,000	Do.
46	do	58,000	36,000	Do.
Republic Steel Corp., New Jersey (2 ships):				
Liberian Navigation Corp.		44,800	36,000	
766	United Kingdom	22,400	18,000	Liberia.
767	do	22,400	18,000	Do.
United States Gypsum Co., Inc. (1 ship):				
Panama Gypsum Co., Inc.: *699*	Germany	10,600	6,000	Panama.

Source: Maritime Administration, U. S. Department of Commerce.

STATEMENT OF INDUSTRIAL UNION OF MARINE AND SHIPBUILDING WORKERS OF AMERICA, AFL–CIO, BEFORE THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE, CONCERNING ORE VESSEL CONSTRUCTION AND OPERATION AND TANKER CONSTRUCTION

INTRODUCTION

The Industrial Union of Marine and Shipbuilding Workers of America, AFL–CIO, is a labor union, admitting to membership all workers employed in the shipbuilding, ship repairing, and marine maintenance industries, and in industries producing marine equipment, and in allied enterprises and industries.

This union has a vital interest in the maintenance of an American cargo fleet sufficient to insure our national security and to protect American industry and agriculture against the control and manipulation of export markets by complete foreign domination of ocean freight rate structures.

The Senate Interstate and Foreign Commerce Committee is well aware that this union has long been in favor of extending construction differential subsidies to all vessels constructed in the United States, whether for foreign or domestic use.

EFFECT OF WAR EMERGENCY ON UNITED STATES TRADE AND SHIPPING

This union has always pointed out to the Congress of the United States that we cannot depend upon vessels of so-called friendly foreign nations to carry our supplies in case of world emergency or even of near emergency.

Prior to World War I, the United States permitted the merchant marine to wither away until our ships were carrying only 9 percent of our export and import trade. At the outbreak of war, we were in the dangerous position of a neutral nation without ships. The foreign maritime nations withheld their ships, and our Nation's foreign trade was left high and dry on our docks. In August 1913, the United States had exported 257,172 bales of cotton. One year later, in August 1914, we exported only 21,219 bales. The price of cotton fell from $62.50 a bale in July 1914 to $36.25 in December 1914, because it could not be delivered. All cargoes piled up on the docks, and the American producers and distributors of our export commodities faced ruin.

The British and neutral shipowners who did send their ships to our shores charged our shippers unbelievably gouging rates. Shipping rates increased up to 700 percent, even before our Nation engaged in the munitions trade. After the war became a full-scale one, shipping rate increases of 2,000 percent were common. The average rate on general cargo increased 1,117 percent.

Before World War I, ships were chartered for $1 a ton. Two short months after the outbreak of the war, the charter rate was $13.88 a ton to areas outside of the war zone and $20 to $21 in war zones. These high shipping profits caused the demand for ships to soar. The sales price of ships rose to $400 a ton from the prewar price of $60 a ton. In fact, shipping profits were so high that many ships were completely paid for from the profit of one voyage.

Today many apologists for operating American ships under foreign flag claim that such ships are available to the United States. This is nothing less than misrepresentation of facts. Prior to World War I, the great bulk of American-owned ships had been registered under foreign flag. When the war broke out, most of these ships were not made available to the United States. Congress, under the guidance of the Wilson administration, hastened to enact legislation to alleviate this critical problem. In August 1914 a law was enacted which permitted Americans to register their foreign-flag ships under the American flag. Congress also enacted a law which provided insurance coverage for these ships.

These emergency acts had a strong effect in increasing the tonnage available to the United States. Despite this historical fact, the enemies of the American merchant marine still advocate foreign flags for American-owned ships. By July 1, 1915, 523,000 tons of shipping had been transferred to the American flag. By 1917 this total was increased to 650,000 tons.

By the end of World War I, the United States possessed 2,547 merchant ships aggregating a total of 14,705,281 deadweight tons. The direct acquisition costs of these ships was $3,042 million. Of these ships, 2,316 were constructed by the Government at wartime costs of $2,951,807,000. The balance of 231 ships were acquired by purchases, seizures of enemy property, and transfer from other Government departments at a net cost of $126,194. The composition of that high-cost wartime fleet was as follows:

Cargo	1,866
Tankers	159
Passenger	63
Transports	23
Colliers	19
Tugs, barges, and other miscellany	417
Total	2,547

President Wilson was greatly disturbed by the mistake our Nation had made in not maintaining a peacetime fleet adequate to service our foreign trade during war. In his third annual message to Congress, given in May 1915, he declared:

> "It is high time we repaired our mistake and resumed our commercial independence on the seas. For it is a question of independence. If other nations go to war, or seek to hamper each other's commerce, our merchants, it seems, are at their mercy, to do with as they please. We must use their ships, and use them as they determine. We cannot handle our own commerce on the seas. Our independence is provincial and is only on land and within our own borders."

With the outbreak of World War II, we still heard the argument that our allies had merchant fleets that were large enough to service the free world. Yet, after the outbreak of World War II, experience shows us that we needed many more ships than the number estimated by the United States Maritime Commission. In fact, the fleets of our allies were not available for our use, and we had to construct over 5,000 ships to meet the shipping needs of our Nation and our allies.

On September 1, 1939, the United States merchant fleet had 1,379 seagoing ships of 1,000 gross tons and over. The Maritime Commission, in November of 1937, had said that 1,200 ships would be adequate for our country in time of war. Again, the so-called experts claimed that our country could depend on foreign merchant marines. Again, they were proved to be wrong, by 6,234 ships. By requisition title, the United States acquired 103, purchased 26, and chartered 16 foreign-flag vessels during World War II.

All theaters of World War II operations were overseas. Accordingly, our Nation was dependent upon ocean transportation in making its strength effective against the enemy. The Axis Powers were well aware of that fact. They did all they could to destroy our merchant marine.

When Europe went to war in September 1939, the world oceangoing merchant shipping totaled 80 million deadweight tons. Britain and France controlled approximately 27 million tons. The great portion of neutral shipping was available to the Allies. At the outbreak of the war, the German blockade became effective immediately. During the 27 months prior to the entry of the United States into the war, about 16 million deadweight tons were sunk by the Axis. During the same period, the combined output of the shipyards of the United Kingdom and the United States, which were almost the sole source of new merchant shipping for the Allies, was only 5 million deadweight tons.

On December 1, 1941, the ocean passenger, dry cargo, and tanker vessels under the American flag aggregated about 11,600,000 deadweight tons. German submarines appeared in the western Atlantic, the Gulf of Mexico, and the Caribbean, and ships moving coastwise were sunk within sight of our shores. American ships totaling 3,609,000 deadweight tons were lost during 1942, the year of our heaviest casualties. Approximately 6,764,000 deadweight tons of American ships were sunk during the course of the entire war.

For the entire war period, the losses of ships controlled by or available to the Allies aggregated over 36 million deadweight tons. Of these losses, 733 were American merchant ships of over 1,000 gross tons and hundreds of smaller ships. Thus, the American loss was more than half the tonnage of our prewar merchant marine.

The breakdown of the Allied merchant ship losses is as follows:

Allied losses, in deadweight tons

	Nontanker	Tanker	Total
September 1939–December 1941	13,700,000	2,600,000	16,300,000
Year 1942	8,957,000	3,070,000	12,027,000
Year 1943	4,342,000	977,000	5,319,000
Year 1944	1,804,000	293,000	2,097,000
January–August 1945	679,000	160,000	839,000
Total	29,482,000	7,100,000	36,582,000

During 1940 and the early part of 1941, there were several months when the allied shipping losses exceeded the combined ship construction of the United Kingdom and the United States by more than 500,000 deadweight tons.

Considering the low ebb of American shipbuilding during the early 1930's, and the vital part which the American shipbuilding industry was called upon to play in the successful carrying out of the war, it was fortunate that this industry was kept alive at all before we entered the conflict. After the German forces had overrun Norway, the Low Countries, and France in the early summer of 1940, this fact was even more apparent, and its implications became serious. Accordingly, in the fall of 1940, the British placed orders with American shipyards for 60 freighters. Early in 1941, the Maritime Commission ordered 200 more cargo carriers. By the end of 1941, the American shipbuilding program, including foreign and American orders, had been expanded to include about 1,200 ships aggregating about 14 million deadweight tons. It was with the view of expedit-

ing the deliveries of British orders that a ship of simplified design was agreed upon. This gave birth to the Liberty ship, which was actually obsolete on the drawing board.

During the 5-year period 1941 to 1945, a total of 5,280 oceangoing vessels, aggregating over 54 million deadweight tons, was delivered from American shipyards. The yearly breakdown of this total is as follows:

	Number of ships	Deadweight tons
1941	105	1,165,200
1942	740	7,918,000
1943	1,719	18,561,400
1944	1,623	15,982,200
1945	1,093	10,597,300
Total	5,280	54,224,100

The breakdown by types of ships and tonnage is as follows:

	Number of ships	Deadweight tons
Standard cargo	475	4,694,400
Liberty ships	2,708	29,182,400
Victory ships	414	4,491,700
Tankers	678	10,934,200
Military troopships	245	1,243,700
Other military types	266	1,791,700
Miscellaneous	494	1,886,000
Total	5,280	54,224,100

During the war period, British Empire shipyards delivered less than 11 million deadweight tons. In fact, all of our allies upon whom the prewar experts had claimed we could depend for merchant ships supplied us with only 715,000 gross tons of ships. On the other hand, we delivered 5,500,000 gross tons of them.

The United States merchant marine delieverd the goods to our fighting forces and allies overseas. The total cargo lift from the United States between December 7, 1941, and the surrender of Japan was 268,252,000 long tons, of which 203,522,000 were dry cargo and 64,730,000 were petroleum and other liquid cargoes. During the last year of the war, this meant an average rate of delivery of 8,500 tons of cargo every hour of every day and night. Our ships also carried the great majority of the 7,129,907 Army personnel and 141,537 civilians moving overseas between December 7, 1941, and November 30, 1945. During this same period, they carried 4,060,833 Army personnel and 169,626 civilians back to the United States. Because we were able to build up our own merchant marine during the war, we were able to deliver the goods needed to win the war. Also, we avoided the type of gouging we received during World War I. During World War II, general cargo rates increased only 70 percent, as compared to 1,117 percent during World War I.

When the Korean war broke out, our allies were not in a position to provide the ships for that limited operation. In the Korean war, our merchant ships delivered 80 percent of the cargoes in Korea. If an all-out war breaks out, our merchant fleet will be the only one we can fully depend upon—that is, of course, if we modernize our fleet and maintain it at an adequate size.

We entered both World Wars with inadequate merchant shipping. We were required to build additional ships for ourselves and our allies upon whom we were relying for shipping. It should be clear even to a novice that this condition has not changed. Indeed, it appears to us even more serious than heretofore. Certainly, if we are engaged again in a war that involved the European countries, we will be required to build all of their ships for them.

The above story of what has happened to the United States in two World Wars and one limited emergency, should be warning enough to this country that our oil and steel and other strategic metal and chemical industries will again be left in the lurch if the American-flag merchant marine does not have sufficient ore and oil carriers to meet a crisis.

ORE CARRIERS

Although the Maritime Administration has been carefully planning the types of vessels required for the replacement needs of the American merchant marine, the main hiatus in such planning has been the lack of ore-carrying ships. An article by Jack Nevard in the Journal of Commerce of June 9, 1955, pointed out that depletion of United States reserves of high-grade iron ore is producing a boom in world shipbuilding sectors. Mr. Nevard stated that by the 1960's we would require over 60 million tons of iron ore imported into this country from overseas' sources. This will use the services of a fleet equal in carrying capacity to all the ships presently plying the Great Lakes.

This estimate of iron ore needs does not take into consideration the expanding needs of the aluminum industry. It also does not take into consideration needs of other industries which are increasingly dependent on imports of raw ores from abroad.

As of February 1956, the "Bulletin" of the American Bureau of Shipping reported two bulk ore carriers (one launched in October of 1955), for the Iron Mines Co., of Venezuela, being built at the Bethlehem-Sparrows Point Shipyard, at Sparrows Point, Md. These vessels were of 7,500 deadweight tons each. No other bulk ore carriers were reported being built in the United States.

However, the American Bureau of Shipping reported the following bulk ore carriers being built for American interests abroad:

Builder	Owner	Hull No.	Type-size name	Estimated gross tons, dead weight tons
Cammell Laird & Co., Birkenhead, England.	Pan Ore S. S. Co., New York, N. Y.	1237	Bulk ore carrier, 650 by 88 by 48 feet, Leader, keel laid Mar. 29, 1954, launched July 20, 1955.	21,300. 31,300.
Swan, Hunter & Wigham Richardson, Wallsend-on-Tyne, England.	M. A. Hanna Co., Cleveland, Ohio.	1841	Bulk ore carrier, 630 by 87 feet by 5 feet 6 inches, Ruth Lake, keel laid Jan. 27, 1955, launched Dec. 15, 1955.	22,000. 32,000.
Deutsche Werft, A. G., Hamburg, Germany.	Hendy International Corp., Philadelphia, Pa.	711–13 715–16 730–32	Bulk ore carrier, 625 by 87 by 46 feet.	27,900 each. 34,500 each.
Kawasaki Dockyard Co., Kobe, Japan.	Segovia Compania, Naviera, South America.	941–42	Bulk carrier, 498 feet 9 inches by 67 feet 7 inches by 41 feet 8 inches, hull 941-keel laid Oct. 1, 1955.	11,000 each. 15,700 each.
Do	Home Shipping Co., Windward Shipping Co., South America.	951–2	Ore or oil carrier, 708 feet 8 inches by 100 feet 5 inches by 50 feet 6½ inches.	29,500 each. 45,000 each.
Kure Shipbuilding & Engineering Co., Kure City, Japan.	Henry J. Kaiser Co., Oakland, Calif.	23	Self-unloading ore carrier, 490 by 72 by 41 feet.	10,000. 16,000.
Kore Shipyard Division, National Bulk Carriers, Inc., Kure City, Japan.	Universe Tankships, Inc., New York, N. Y.	46	Self-unloading bulk carrier or tanker, 756 by 106 feet by 54 feet 2 inches.	36,000.
Kure Shipyard Division, National Bulk Carriers, Inc.	do	48–50	Bulk ore carrier, 700 by 98 feet by 50 feet 3 inches, *Ore Prince*, hull 48, keel laid Aug. 8, 1955, launched Jan. 21, 1956; hull 49, keel laid, Dec. 15, 1955.	15,450 each. 44,600 each.
Mitsui Shipbuilding & Engineering Co., Ltd., Tamano Works, Tamano, Japan.	Orion Shipping & Trading Co., New York, N. Y.	607	Ore or oil carrier, 660 by 92 feet 6 inches by 48 feet.	25,000. 37,600.
Nippon Steel Tub Co., Tsurumi, Japan.	San Juan Carriers, Ltd., Monrovia, Liberia.	717–720	Bulk Ore Carrier 625 by 87 feet by 46 feet 6 inches, *Harvey S. Mudd*, keel laid July 6, 1955, launched Dec. 12, 1955, hull 720, keel laid Dec. 2, 1955.	11,300 each. 31,400 each.
Uddevallavarvet A/B, Uddevalla, Sweden.	Caribbean S. S. Co., South America, Panama, Republic of Panama.	141	Self-unloading bauxite carrier, 519 by 70 feet by 40 feet 9 inches.	10,900. 17,300.

It should be noted by the committee that the ore carriers being built in the Bethlehem-Sparrows Point Shipyard will have less than one-third the carrying capacity of the ore carriers being built abroad.

Even with the new tonnage presently under construction abroad for the United States import trade, about 1 million tons of single-trip capacity still needs to be supplied for the ore and aluminum industries. At present a considerable volume of ore is being sent in converted Liberties, C–2's and C–3's. It seems that this share of the market will have to go to specialized ore carriers because of the economies in carrying capacity (six times as much as Liberties can carry), with only a few more crew members.

Therefore, the Industrial Union of Marine and Shipbuilding Workers of America, AFL–CIO, is fully in support of the extension of construction and operating differential subsidies to builders and operators of ore carriers under the American flag.

TANKERS

Although it has been recognized by the Congress of the United States that the operation of tankers under the American flag is of the utmost importance to the safety and security of this country, and although the Congress of the United States acted with due regard for the realities of the situation, we have had in the administrative branch of the Government one of the worst muddles in the history of vessel construction, as far as tankers are concerned.

The 2d session of the 83d Congress passed a special measure to permit the Military Sea Transportation Service to negotiate long-term leases for 15 high-speed tankers which were to be built by private companies. These vessels were required by the Department of the Navy, and contracts were to have been awarded by January of 1955.

We have already testified before the Subcommittee on the Merchant Marine of this Senate committee, in April of 1955, as to our opinion on the delay in the construction of these vessels. Since that time, there has occurred, in November of 1955, a rescission of the charter to the United Oceanic Corp. for 8 tankers; new requests to bid on all 15 tankers in December of 1955; new rules on the tanker loans and special mortgages issued in December of 1955; new bids to be opened on January 3, 1956; and an announcement by the Navy on January 2, 1956, that new formal offers were to be filed by January 26 to remain firm until February 2, 1956. Finally on February 2, 1956, the awards were made for 14, and not 15, tankers—1 less tanker than should have been constructed under the original legislation.

We now have been advised by the Bethlehem Steel Co. that actual construction of those tankers to be built by Bethlehem will again be delayed.

As far as the trade-in-and-build tanker legislation was concerned, up to December 9, 1955, only 6 contracts were placed; while under the transfer of old tonnage foreign for new construction, only 1 contract was recorded up to December 1955. This, despite the fact that the basic legislation under which all these things should have been done, was passed almost a year and a half ago. Further foreign transfers have recently been allowed under the transfer foreign options, but this does not change the basic picture.

An article on tankers by Harry G. Schad, vice president and general manager of Atlantic Refining Co., in the Marine News of December 1955, pointed out that the supply of United States tankers is expected to decline from an average of 390 T–2 equivalents in 1955 to 359 by 1960. This article pointed out that during 1955 the world inventory of commercial tanker ships grew by nearly 7 percent while the American tanker program declined by 7 percent. The net effect of this decline even while 1955 was an exceptionally good year, and the loss of carrying capacity projected over the next 5 years, will make the United States industrial machine more dependent than ever on foreign-flag tankers and will certainly weaken our national defense.

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The following table, included by Mr. Schad, clearly shows the picture:

Yearly average supply and demand for commercial petroleum tankers 6,000 deadweight tons and over (T–2 equivalents)

	1954	1955	1956	1957	1958	1959	1960
Worldwide:							
Demand	1,719	1,989	2,118	2,260	2,442	2,622	2,808
Supply	1,854	2,039	2,211	2,418	2,624	2,801	2,890
Surplus	135	50	93	158	182	179	82
United States flag:							
Demand	348	366	365	331	342	350	358
Supply	414	390	379	379	373	366	359
Surplus	66	24	14	48	31	16	1
Foreign flag:							
Demand	1,371	1,623	1,753	1,929	2,100	2,272	2,450
Supply	1,440	1,649	2,832	2,039	2,251	2,435	2,531
Surplus	69	26	79	110	151	163	81

In the previous sections of this statement, we have already shown what happens when the United States depends upon foreign-flag vessels during a war or an emergency. Tonnage of tankers being built for American interests abroad are steadily increasing while tonnage of tankers being built in the United States are steadily decreasing.

The United States is the only large shipbuilding nation with any significant lack of tanker orders during the next 3 years.

Because of the administrative situation and block obsolescence of the United States tanker fleet, the tanker situation will probably reach another crisis within another few years. Some provision must be made by the Congress, and properly carried out by the administrative agencies, to clear up this situation.

We have long taken the position that the Administration should consider these tankers as special purpose vessels which can receive 100 percent mortgage insurance under the terms of the 1954 amendments to the Merchant Marine Act.

The letter inviting the bids, which was issued by the Military Sea Transportation Service on August 20, 1955, provided that these vessels were to have certain specific characteristics. The characteristics required which were somewhat unusual, were smaller size ships, longer hulls, with higher speeds for the size, than are usually constructed for commercial usage. Further, the designs required have independent cargo systems capable of handling four different kinds of petroleum or petroleum products.

A scrutiny of the Bulletin of the American Bureau of Shipping for February 1955, shows that most of the tankers being built today with the required horsepower are much larger than 25,000 deadweight tons. The three Cities Service Oil Co. tankers being built at the Bethlehem Steel Co., Sparrows Point Shipyard, are over 32,500 tons. Most of the tankers being built abroad are running from 30,000 to 35,000 tons.

Therefore, the requirement for speed and for capacity, is not important, and could easily be met in a larger vessel with no increase in cost ratio; but the speed requirement coupled with a limitation upon deadweight tonnage and size, would seem to increase hull cost and total cost far in excess of the normal cost per deadweight ton required to build a larger vessel of the same speed.

Evidently the refusal of the Maritime Administration and the MSTS to consider these vessels as special-purpose vessels for the purpose of mortgage insurance, may kill this tanker program.

We would respectfully suggest that defense requirement would seem to make it inadvisable to reduce requested speed, and therefore that the designation of these ships as special-purpose vessels seems to be indicated.

MARCH 22, 1956.

Senator WARREN G. MAGNUSON,
Chairman, Interstate and Foreign Commerce Committee,
United States Senate, Washington, D. C.

DEAR SENATOR: You have suggested that I file with your committee, to be incorporated in the hearings beginning March 12, a statement on the necessity of maintaining the importation of metallic ores in ships of American ownership, registry and manning.

I know you are familiar, but I think I should make it clear for the record, that I am no longer actively engaged in the shipping business. The statements

and observations which I shall make are based, therefore, not upon any personal interest or prospect of advantage, but rather upon more than 40 years of active participation in the industry. I do have some very strong convictions as a private citizen about the necessity of a strong, modern merchant marine, and its function as an integral part of national defense. This is based in part by my experience during World War II with the War Shipping Administration.

I hope the committee will understand that my comments will be basic in character and represent exclusively my own personal opinion. They will be related primarily to national defense.

I believe we should view with apprehension the quite obvious fact that in the foreseeable future the United States will need to import many million tons of iron ore per year for the manufacture of steel, and that such importation will arrive from foreign ports in vessels of foreign registry, flag and manning.

In World War II the United States, in its all-out effort, depleted the great deposits of iron ores, or at least the high grade portions thereof, located in the Great Lakes area. We have now come to a point where, from all public reports, we cannot maintain the steel production for even our peacetime requirements except by the importation of large quantities of foreign ores. The report of the Department of Commerce for the year 1954 shows total ore importations of 25,824,000 tons, of which less than one-third was carried in United States flag ships. Of this quantity 84 percent thereof was imported by one American steel company. We know that ore carriers to the extent of many millions of dollars are being constructed in foreign shipyards by United States interests for registration under foreign flags, and that no such vessels are under construction in United States yards.

Let me quote from the May 1955 issue of the American Bureau of Shipping Bulletin:

> "On May 1, 1955, there was under construction in the United States only one small ore carrier, and that was being built for Venezuelan interests. However, in foreign shipyards, for United States interests, and paid for in large part by American capital, there were on order or under construction a total of 12 large, modern bulk carriers, aggregating 429,200 deadweight tons.
>
> "British yards are building three such ore carriers, one of 31,000 deadweight tons for New York interests, and two of 32,000 deadweight tons each, for Cleveland interests.
>
> "Japan is building 8, including 2 supercarriers of 55,000 and 58,000 deadweight tons, for New York and California interests.
>
> "Sweden is building one 26,000 ton carrier for New York interests."

There appears little doubt that the situation has become increasingly worse since that time.

We know that these foreign registered ore carriers will be manned by foreign officers and crews at cheaper wage scales to reduce operating and transportation costs. Everything points to a continuously greater portion of our raw material for the making of steel and other metals being transported in foreign ships. There are estimates that this requirement for iron ore alone will be 50 million tons per year in a decade and 70 million tons per year by 1985.

It appears quite obvious that if we cannot maintain our steel supply in peacetime without requiring the importation of many million tons of foreign ores, how much more difficult this will be in time of war when steel and other metal requirements will be multiplied. It must be equally obvious that the United States cannot fight a successful war without ample supplies of steel and other metals. The subject is simply reduced to whether under these conditions this country can without doubt count upon the continuous flow of foreign ores; the continuous production of steel and other metals; and the continuous production and availability of munitions. I do not believe that the United States can afford to take any chance in the maintenance of this supply of ore and of the end products. I do not share the views of those who feel we can rely upon foreign registered and manned ships, even if owned by American capital, to maintain this supply. I cast no reflection upon the loyalty of the American owners. I have no doubt that they would do everything within their power to make these ships available, but I do discount the complete reliability of foreign-flag ships with foreign crews and officers who may and probably would have a divided loyalty, if not in fact, a contra-loyalty. No one can tell whether receipt of orders to bring these vessels to localities where they would be available for American usage would be complied with by such officers and crews. I do not anticipate that the United States Navy would go out upon the high seas

and shepherd these vessels into American ports; and if they did so, I would foresee great international complications. I would suggest to the committee that future wars are more likely to be based upon firepower than upon manpower: that the availability of munitions and equipment derived from metals will be of many times the relative importance of past wars. All of this, to my mind, points up the absolute essentiality that the production of steel, aluminum, and other metals be continuous and in large volume and that no impediment of any character be injected at the inception of, or along the production line.

I am happy to see from official reports that the Maritime Administrator, while calling attention to the proposed availability of these American-owned foreign-registered ships, plus certain vessels from the NATO nations, is in agreement that participation of American-flag ships should be increased, and that the continuous flow of iron ore and other strategic bulk commodities "is essential for national defense and its interruption could not be tolerated." This surely must have been in the mind of the Secretary of Commerce when he wrote to American companies importing ores to secure their views as to the possibility of future construction of ore carriers for United States-flag operation. The Maritime Administration of the Department of Commerce, is reported to have stated to you that it "is deeply interested" in this question and intends "to pursue it vigorously."

Now, the other side of the question represents the views of those who believe that the United States can, with equanimity, rely upon foreign vessels for the transportation of these vital national defense ores. Their view appears to be that if the ships are owned by American capital, even if registered in foreign countries flying foreign flag and manned by foreign crews, at least those of Panamanian and Liberian registry, are under "effective United States control," and their availability can be relied upon. It is a nice phrase, but I think an empty one. As a citizen and one deeply interested in the maintenance of an adequate defense system I do not share these views. I believe history will support the contention that we have always found it necessary to depend upon our own strength and our own preparedness. To leave any gap in our own defense system which must be filled by a foreign ally or a foreign-controlled element is inviting disaster. Aside from the Panamanian and Liberian vessels of so-called effective control, I understand the Office of Defense Mobilization has advised you that Italy, Great Britain, Germany, Greece, Canada, and the Netherlands are members of NATO, and as such have agreed to take effective action immediately on the outbreak of war or grave emergency which would insure that the vessels of these flags would be operated *in a manner consistent with the overall interests of the NATO* powers. [Italics ours.]

Who, and how long will be required to determine such overall interests in a war emergency? I doubt this assurance will satisfy your committee.

In World War II when allied with the most important maritime nations of the world, the United States had to build 5,500 merchant vessels, far more than all our allies combined, and had to supply them eight times as much ship tonnage as it received from them. I might add that for ships which were so supplied by our allies an almost unconscionable charge was made.

Who knows, in the next emergency, if one unfortunately occurs, what the alinement of all these nations will be? May there not be a division or split? And what happens to our national defense while such "overall interests" are being determined?

The testimony recently of the Deputy Chief of Naval Operations this month (March 1956) before your committee inspires no confidence. It reported:

> "The Department of Defense has no information at this time to indicate a shortage against planned mobilization requirements of strategic ores and bulk minerals; hence the Department of Defense has not applied the same pressure in this area that it has with respect to bulk petroleum."

The representative did add that legislation and appropriations to build such ships for United States registry "would be helpful."

But we should not think only of war mobilization, but beyond also, to war prosecution, and to a successful conclusion. There seems to be a tendency to rely upon ships from nations of "traditional friendship." Almost every month the press tells us of international stresses which could disrupt one or more of these traditions. To a committee so well informed in international affairs it is unnecessary for me to point out the stresses that exist between some of these nations and, in fact, the internal stresses of some; the acute situation of the Middle East; and many other better known to the committee than to myself. The only traditional ally which I think the United States can rely upon is its

own inherent strength. I contend that such has been a traditional part of our national defense policy heretofore.

I therefore do not feel very complacent about the aid we will obtain from foreign sources, even giving them the benefit of a full and complete effort and without doing any crystal gazing as to which nations will be on our side and which will be opposed to us. The chairman of your committee said to the Senate on June 15, 1955:

> "To me, there is a little comfort in either the 37.1 percent or the 31 percent when, as recently as 1951, 61 percent of all iron ores reaching this country came in vessels flying the American flag. The plain facts of the case are that American-built, American-manned ships carried, in 1954, only 60 percent of the share of iron ores that they enjoyed just 3 years ago.
>
> "The ominous part of this picture is that we can be certain that the percentage of ores carried in American bottoms will go progressively lower and lower in the near future, because other nations are building the new, large ore carriers that will have to be relied upon in this trade."
>
> * * * * * * *
>
> "Russia's fast submarines could be expected to exact a heavy toll upon such shipping. Indeed, their strategy could very well be concentrated upon severing this steel and metals lifeline, and thus cripple the heavy industries that are the backbone of America's military power.
>
> "I need not dwell upon this possibility—it is self-evident."

Now, I am not minimizing the difficulty in overcoming the economics involved. These foreign ships, even though owned by American capital, were built in foreign shipyards at costs which I believe to be less than one-half of their cost in this country, and they may be operated by foreign crews and under foreign living conditions at one-half or less of similar American costs. It is quite obvious that American-flag carriers cannot compete in a foreign market while maintaining American standards of wages and living. In just what manner Congress should give the American-flag ship a competitive position is for the committee and the Congress to decide. It could be done by some form of operating and construction differential subsidy; it could be done by a licensing system. Both of these would be painful, one on the economic and the other on the diplomatic plane. I do suggest, however, that the matter of maintaining ourselves in a position of adequate self-defense transcends all other considerations and thoroughly justifies action which will give the American ship a fair economic opportunity. And that is all that the American ship wants or should have, and given that opportunity it will participate in the importation of foreign ores to a point which will substantially reduce what I believe to be the existing national-defense hazard.

Now, I know the committee will be deluged with arguments about Canadian ore, transportation through the St. Lawrence seaway, etc., but these do not meet the basic problem I have tried to highlight. I believe these should be thoroughly examined in the light of the location of these ore bodies, the transportation facilities which will have to be provided and operated, and the climatic conditions which will prevent year-round operation. Even in the most favorable light, there will be other types of ores from other overseas areas which must be available for the proper production of national-defense munitions.

What I have said here relating to metal ores is not applicable to petroleum where we have an ample supply of domestic production with many wells closed down for lack of market, notwithstanding substantial foreign importations. Late press reports are that important Texas production is restricted to 16 days per month.

The argument on metal ores as I see it is the argument of national defense and should not be otherwise confused. It is the transcending reason which justifies, if it does not in fact compel, a solution.

Very truly yours,

FRAZER A. BAILEY.

The CHAIRMAN. The committee will recess.

(Thereupon, at 4:08 p. m., the committee was adjourned.)

ORE VESSEL CONSTRUCTION FOR USE ON THE GREAT LAKES

MONDAY, APRIL 16, 1956

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, D. C.

The subcommittee met, at 10 a. m., pursuant to notice, in room G–16, United States Capitol, Hon. Charles E. Potter, presiding.

Present: Senator Potter, presiding.[1]

Senator POTTER. The subcommittee will come to order. The subcommittee has been called to consider S. 3108. (S. 3108 is as follows:)

[S. 3108, 84th Cong., 2d sess.]

A BILL To encourage the construction of modern Great Lakes bulk cargo vessels

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 510 of the Merchant Marine Act, 1936, as amended, is amended by adding at the end thereof the following new subsection:

"(i) The Secretary of Commerce is authorized (subject to the provisions of this section) to acquire any obsolete Great Lakes vessel or vessels in exchange for an allowance of credit to be applied upon the purchase price of a new vessel. A vessel shall be considered an 'obsolete vessel' for purposes of this subsection if it (1) is enrolled and licensed under the laws of the United States for trade on the Great Lakes and has been so enrolled and licensed for a period of at least ten years; (2) is designed to transport in such trade dry bulk commodities such as iron ore, limestone, grain or coal; (3) is of not less than three thousand gross tons; and (4) is owned by a citizen or citizens of the United States and has been so owned by such citizen or citizens for at least three years immediately prior to the date of acquisition hereunder. A vessel shall be considered a 'new vessel' for purposes of this subsection if it (A) is constructed after January 1, 1956, in a Great Lakes shipyard within the United States; (B) is capable by reason of design of transporting bulk commodities such as iron ore, limestone, grain or coal between ports on the Great Lakes, including the whole of the Saint Lawrence River and the Gulf of Saint Lawrence as far east as a line drawn north and south through the west end of Anticosti Island; and (C) is documented under the laws of the United States.

"The allowance of credit for an obsolete vessel or vessels acquired under this subsection may equal but shall not exceed the excess, as determined by the Secretary, of the fair and reasonable cost of constructing the new vessel (excluding the cost of any features incorporated in the vessel for national defense use, which shall be paid by the United States) over the fair and reasonable estimate of cost of constructing the new vessel, if it were constructed under similar plans and specifications (excluding national defense features as above provided), in the lowest cost foreign yard where vessels have been built or are likely to be built, as found by the Secretary, for engaging in the transportation of any

[1] Staff members assigned to these hearings: A. J. Bourbon and Albert B. Luckey, Jr.

bulk commodity in competition with any Great Lakes United States vessel, whether the movement of such commodity be over the Great Lakes or other waters. Nothing in this subsection shall be construed as restricting the trade in which such new vessel may be used. With respect to a new vessel, the construction of which was contracted for after January 1, 1956, but before the effective date of this subsection, such allowance may be paid to the owner notwithstanding the provisions of subsection (b). The full credit on the cost of the new vessel shall be allowed only upon the trade-in of an obsolete vessel or vessels having gross tonnage at least equal to or greater than that of the new vessel: *Provided*, That the gross tonnage of such obsolete vessel or vessels may exceed the gross tonnage of the new vessel in a ratio of not in excess of one and twenty-five one-hundredths to one, if the Secretary finds that the new vessel, although of less tonnage, will provide utility value equal to or greater than that of the obsolete vessel or vessels. If the gross tonnage of the obsolete vessel or vessels is less than that of the new vessel, the allowance of credit shall be reduced proportionately. If the gross tonnage of such obsolete vessel or vessels exceeds the gross tonnage of the new vessel, then, subject to the provisions of subsection (c) of this section, an additional allowance of credit shall be determined with respect to such excess in accordance with the provisions of subsection (d) of this section.

"Any obsolete vessel acquired by the United States under the provisions of this subsection shall be placed in a national defense reserve fleet of Great Lakes vessels, subject to the provisions of section 11 of the Merchant Ship Sales Act of 1946 (50 App. U. S. C., sec. 1744), unless, in the opinion of the Secretary, it is of insufficient value for commercial or military operations to warrant its further preservation.

"Except as they may be inconsistent with this subsection, all the provisions of subsections (a) through (g) shall be applicable to the acquisition of an obsolete vessel or vessels as provided in this subsection."

Senator POTTER. The existence of a strong and efficient Great Lakes bulk fleet under United States flag capable of competing with foreign vessels is essential to our domestic trade.

Unless Great Lakes bulk vessels under United States flag are able to compete with foreign vessels in international trade, the trend toward greater and greater use of the latter vessels will continue until finally the United States fleet will decrease to a capacity sufficient only to transport the Nation's peacetime domestic commerce in these bulk commodities. In time of war, such a fleet would not be adequate to handle the increased foreign and domestic commerce which would inevitably result at a time when this Nation would be compelled to rely more fully on its own resources.

At the present time there are 343 Great Lakes bulk cargo vessels under United States flag, representing a total trip capacity of 3,380,000 tons. Of these vessels, 103 are now 50 or more years old. By 1960, however, 201 vessels, or approximately 60 percent of the entire United States flag Great Lakes bulk cargo fleet, will be 50 or more years old. These vessels represent a total trip capacity of 1,900,000 tons.

In order to maintain an equivalent American flag carrying capacity, at least 20 new and more efficient vessels would have to be built now. The question is, whether they will be built in the face of high American building costs when it is possible that the services on which they operate can be replaced by international trade utilizing foreign flag vessels built at considerably less cost.

The Government, recognizing the importance of the shipbuilding industry and the need of maintaining a mobilization base in that industry in the past few years, has taken measures to assist that industry.

A program of modernization of reserve fleet vessels is underway, a tanker trade-in-and-build program has been established, and a replacement program for the subsidized lines has been encouraged.

None of these programs has been of benefit to Great Lakes owners or shipbuilders. Nor does existing law offer inducements sufficient to encourage the undertaking by Great Lakes operators of a program to build the vessels necessary to modernize the American flag fleet on those waters and enable them effectively to meet the indirect competition that will follow the opening of the seaway and the future development of foreign sources of raw materials.

The legislation under consideration this morning would offer great encouragement to domestic operators to replace their fleet and, by establishing a reserve fleet of "Lakers," provide a safeguard in any national emergency that would be of comparable utility to the reserve fleet of tankers which is being built up under the persent law. It would also stimulate and maintain shipbuilding so essential to the Nation's mobilization base.

I would like to include at this point in the record a statement from Congressman A. D. Baumhart, of the 13th Ohio Congressional District, in support of S. 3108.

(The documents referred to above are as follows:)

STATEMENT OF CONGRESSMAN A. D. BAUMHART, JR. (13TH OHIO DISTRICT), IN SUPPORT OF S. 3108

Foreign shipping competition—both present and prospective—is of alarming concern to all shipping interests on the Great Lakes—to lake carriers, the inland shipbuilding industry, and labor. In my opinion it should be a matter of national concern.

There is justifiable cause for such alarm. We need only take note of how much ground U. S.-flag vessels have lost in transporting bulk commodities between the U. S. and Canada over the last 30 years. In 1925 U. S.-Canada commerce in bulk commodities (iron ore, coal, limestone and grain) amounted to 9.9 million tons—76 percent of which was carried in American holds. In 1955 this annual commerce had increased to 23.25 million tons, to which may be added 4.75 million tons of other commodities. Yet last year American vessels were carrying only 29 percent of this greatly expanded commerce. American vessels cannot effectively compete to carry these bulk cargoes when it is so much cheaper for rival foreign-flag vessels to be built and operated.

Ore-consumption figures also point up dismal prospects for our inland bulk-cargo fleet. During 1955 Ontario and Quebec-Labrador ores moved into the United States in the amount of about 10 million tons, and within 5 years this figure is expected to double. By 1970 only about half of the iron ore required by our Nation's steel industry will be supplied domestically from the Lake Superior district, which formerly supplied 85 percent of our steel industry needs. By then South America, Africa and other overseas ore sources will probably supply us with more ore than even Canada.

Since U. S.-Canada and other foreign commerce is open to vessels of all countries, completion of the St. Lawrence seaway will expose U. S.-flag vessels to even stronger competition than now confronts them—unless something is done soon to put American vessels in a better position to compete with foreign rivals who have vastly lower construction and operating costs.

Under present conditions our Great Lakes-flag fleet is growing old and obsolete, while our foreign competitors are able to build newer and larger bulk cargo vessels which will soon be able to operate on the Great Lakes via the seaway. There are 343 U. S. flag vessels operating on the Great Lakes today, representing a total trip capacity of 3.38 million tons. Of these, 103 are 50 or more years old. By 1960, 201 of them—about 60 percent—will be 50 or more years old, with a total trip capacity of 1.9 million tons. Such limited trip capacity would only be enough to handle normal peacetime domestic commerce, to say nothing of what a shooting war economy or even an accelerated cold war economy might require.

Thus we find that, not only are we coming to rely increasingly on overseas

sources of ore, but we are having these ore supplies brought to us more and more in foreign holds. I believe that, from a defense standpoint, undue reliance on these foreign sources and shippers can one day prove disastrous. In time of war it is inevitable that these foreign sources would be cut off, and a dangerously depleted and outmoded American inland fleet would be forced to bear a crushing burden. We should take action here in Congress now, while there is still time, to head off such a perilous eventuality.

Defense Secretary Wilson recently renewed his disavowal of "feast and famine defense policies," declaring he had "deliberately * * * shifted the entire defense effort away from arbitrary, unrealistic, short-range goals to long-range objectives adjusted to expected needs." He said on March 13:

"In our defense planning today, we have the tremendously strengthening factor of stability, combined with a cushioned impact of this great effort on the other essential activities of our people. It would be a serious error to return to policies that inflate our defense requirements today and collapse them tomorrow. More specifically, we should not race far ahead today in aircraft production, only to close down the plants tomorrow or so reduce their production that their operation would become erratic and undependable and they would importantly lose their competent and effective organizations."

Although Secretary Wilson spoke only of aircraft production, I feel that his remarks can be aptly turned, by analogy, to inland shipbuilding—an industry which desperately needs stability today as never before, and which can secure reasonable stability with the enactment of S. 3108 (the provisions of which are identical to those of H. R. 8886, which I have introduced in the House of Representatives).

The pressing need for stability in the inland shipbuilding industry has been driven home sharply to me by the experiences of the American Ship Building Co. yard in my own district, at Lorain, Ohio. The production feats of this yard during World War II were tremendous; it made significant contributions to the war effort. From 1951 to 1954 the yard was extremely busy building ore carriers, but since that time (with the exception of some Navy work now in progress (construction of bulk cargo vessels has been at a standstill. Shipyard activity has been on a feast or famine basis, creating problems for both labor and management, as you will note from the following statement I have received from Mr. R. B. Ackerman, president, American Ship Building Co.

"Regarding the problems which have to be met and overcome because of the violent fluctuations in shipbuilding on the lakes, it should be mentioned that the need of stability is obvious because manpower presents a problem in that it can be resolved only as conditions arise. For example, during World War II the employment peak at our Lorain yard was 4,000 and the low point numbered 153.

"In peacetime, without the aid of new construction but with reliance only upon ship repairs, the maximum employment was 300 and the low point 75.

"Beginning in 1951 there was a flurry of merchant shipbuilding which continued until October 1954, during which time there were five ore carriers constructed in the Lorain yard. At the start it presented a problem in manpower procurement, because it was necessary to recruit labor from Kentucky, West Virginia and other locations. Our experience left something to be desired because of the unusual turnover in employment, resulting from inexperience on the part of those employed, their unfamiliarity with weather conditions encountered during the winter seasons and the scarcity of housing facilities.

"A peacetime operation for a shipbuilding yard such as Lorain is carried on at great expense to the company, because during the navigation season, from April 1 to December 1, the ships will not put into port for repairs except in cases of emergency and during the lay-up season, from December 1 to April 1, the port of Lorain accommodates fewer than fifteen vessels, because of limited port facilities.

"During the navigation season, when there is no work in the yard, it is necessary, in the interest of economy, to release many skilled mechanics who seldom return because of the short period of employment and in the most inclement season. This makes recruitment and development an annual occasion.

"With knowledge of the aid that has been given shipbuilding yards on tidewater, we feel that consideration should be given similar yards on the lakes, since it has been proven that combat ships for the Navy and bulk cargo carriers have been built and delivered on time by lake yards whenever a national emergency arose."

Judging from conversations I have had with both labor and management in the inland shipping industry, and with my colleagues in the Congress, the Lorain shipyard situation is by no means unique; rather it is typical of the pressures to which inland shipyards generally are being subjected.

Enactment of a construction incentive program such as is called for by S. 3108 and its House counterparts will develop a sufficiently strong domestic flag fleet to maintain the independence of American shipping on the Great Lakes, and will also create a strong standby fleet in case of national emergency. I would point out especially that this legislation will only take care of vessel construction assistance and will in no way establish an operating subsidy.

Surely on the basis of the evidence which has been and will be submitted to you in the course of this and other hearings, it is clear that now is the time for Congress to take positive action to rejuvenate our Great Lakes shipping fleet, in the interest of our national economic health and our national security.

Senator POTTER. Do we have any Members of Congress who are here who wish to be heard at this time?

If not, we will hear Mr. Ford. Mr. Ford, we are delighted to have you appear before the committee and to receive your views on this legislation.

Will you identify yourself for the record and proceed. Do you have a prepared statement, Mr. Ford?

Mr. FORD. Yes, sir.

STATEMENT OF WALTER C. FORD, DEPUTY MARITIME ADMINISTRATOR, ON BEHALF OF THE MARITIME ADMINISTRATION AND THE DEPARTMENT OF COMMERCE

Mr. FORD. I am Walter C. Ford, Deputy Maritime Administrator. Gentlemen, the bill would amend section 510 of the Merchant Marine Act, 1936, as amended, by adding a new subsection which would authorize the Secretary of Commerce to accept, as trade-ins, obsolete Great Lakes vessels in return for allowances of credit on new vessels.

The allowance provided for in the bill is the difference between the American cost and the estimated foreign cost of building the new vessel. This allowance is similar to the amount of construction-differential subsidy that can be granted under title V of the Merchant Marine Act, 1936, to aid in the construction of vessels which are to operate in the foreign trade except that the allowance is not limited to 50 percent of the construction cost of the vessel, and the bill makes no provision for repayment to the United States of any part of the allowance if the vessel is used in the domestic trade. The bill specifically provides that no trading restrictions shall be placed on the vessel.

Section 510 now authorizes the Secretary of Commerce to accept as trade-ins obsolete vessels, including Great Lakes vessels, which are at least 12 years old, in return for an allowance of credit equal to the value of such vessels. To the extent that the bill authorizes an allowance in excess of the value of the vessels, it would in effect provide construction-differential subsidy to aid in the construction of vessels that could be operated exclusively in the domestic trade.

Such subsidy would be based upon the difference between American and foreign costs, but the resulting new vessel could be operated exclusively in a trade in which there is no foreign competition.

It appears that the principal concern of the sponsors of this legislation centers in the ore transportation problem. A large fleet of specialized ore carriers has been developed to move iron ore from the Lake Superior area to the lower lake ports. However, this fleet is

composed largely of old ships, many of which are obsolete. I have a chart I would like to introduce as an exhibit giving the ages of the Great Lakes ore carriers.

(The document referred to above is herewith inserted.)

Of the 356 Great Lakes bulk cargo carriers, 302 are over 25 years old and, by 1960, approximately 60 percent of them will be at least 50 years old. But even though this fleet of vessels is so old, no orders for tonnage of a major type have been placed currently with any Great Lakes shipbuilding yard.

There is need for a sound, long-range modernization program for the Great Lakes fleet of bulk carriers which are so important in the transportation of such large quantities of iron ore, coal, limestone, and grain.

Imports of iron produced in foreign countries are transported by both American-flag and foreign-flag vessels. The United States merchant marine operating in foreign trade includes 11 ore carriers of 256,000 deadweight tons, which were built between 1946 and 1948. Of those 11 vessels, 8 are owned by the Bethlehem Steel Corp., and 3 are owned by the Ore Transport Co. In 1954, these vessels transported the bulk of the iron ore brought into our country by American-flag vessels—all but 336,000 tons.

Of the 13,801,000 tons of iron ore imported by the United States and carried by oceangoing vessels, American-flag vessels carried 4,895,000 tons or 35.5 percent, and foreign-flag vessels carrier 8,906,000, or 64.5 percent.

However, the percentage of United States ore imports carried by foreign-flag vessels is bound to increase unless additional bulk ore carriers are built for United States registry, while there are 83 ore carriers of almost 1,800,000 deadweight tons for foreign-flag registry under construction in world shipyards.

Of the ore carriers under construction or on order in foreign shipyards, 22 of 676,000 deadweight tons are being built for the account of American owners who intend to register them in foreign countries.

In view of this situation, the Secretary of Commerce wrote the major ore importing companies informing them of his concern that such a large proportion of the bulk ore imports was being transported in foreign-flag vessels.

He asked them to explore the possibility of using American-flag bulk cargo vessels and to indicate their interest in building and operating such vessels. In addition, he informed them that construction-differential subsidy aid could be made available in order to place United States construction costs on a parity with foreign construction costs.

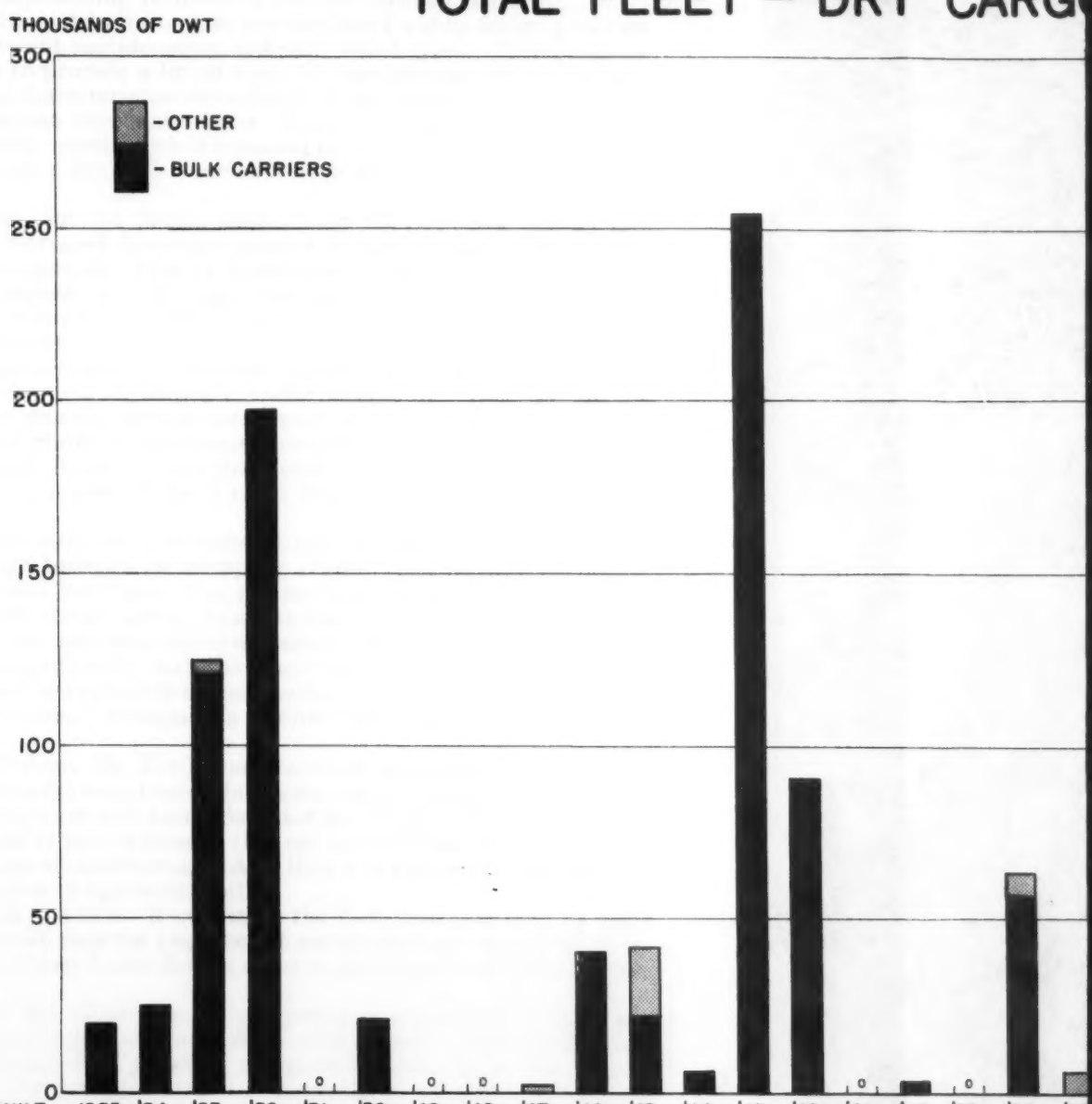
Replies to this letter were received from most of the companies. While some of them indicated that they had no interest in the matter, the remainder stated that the high cost of owning and operating ships under United States registry constituted a most serious obstacle and that they were compelled to use foreign-flag ships, usually on a charter basis, in order to maintain a competitive position. However, there are indications that several of these ore importers would be willing to operate United States-flag bulk ore vessels which could be operated at costs comparable to those of foreign flag vessels.

U. S. DEPARTMENT OF COMMERCE – MARITIME

AGE OF UNITED STATES FLAG GREAT LAKES MERCH

PRIVATELY OWNED AND MARITIME ADMINISTRATION OWNED SHIPS

TOTAL FLEET – DRY CARG



YEAR BUILT...	1955	'54	'53	'52	'51	'50	'49	'48	'47	'46	'45	'44	'43	'42	'41	'40	'39	'38	'37
AGE, YEARS (As of Dec. 31, 1955)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
NO. OF SHIPS	1	1	7	10	–	1	–	–	1	3	5	1	16	5	–	1	–	6	1
Bulk Carriers	1	1	6	10	–	1	–	–	–	3	3	1	16	5	–	1	–	4	–
Other	–	–	1	–	–	–	–	–	1	–	2	–	–	–	–	–	–	2	1

*Combination ships, freighters, bulk carriers and tankers, 1000 gross tons and over.

** Includes 6 Maritime Administration owned bulk carrirers 36,200 deadweight tons, all built prior to 1922.

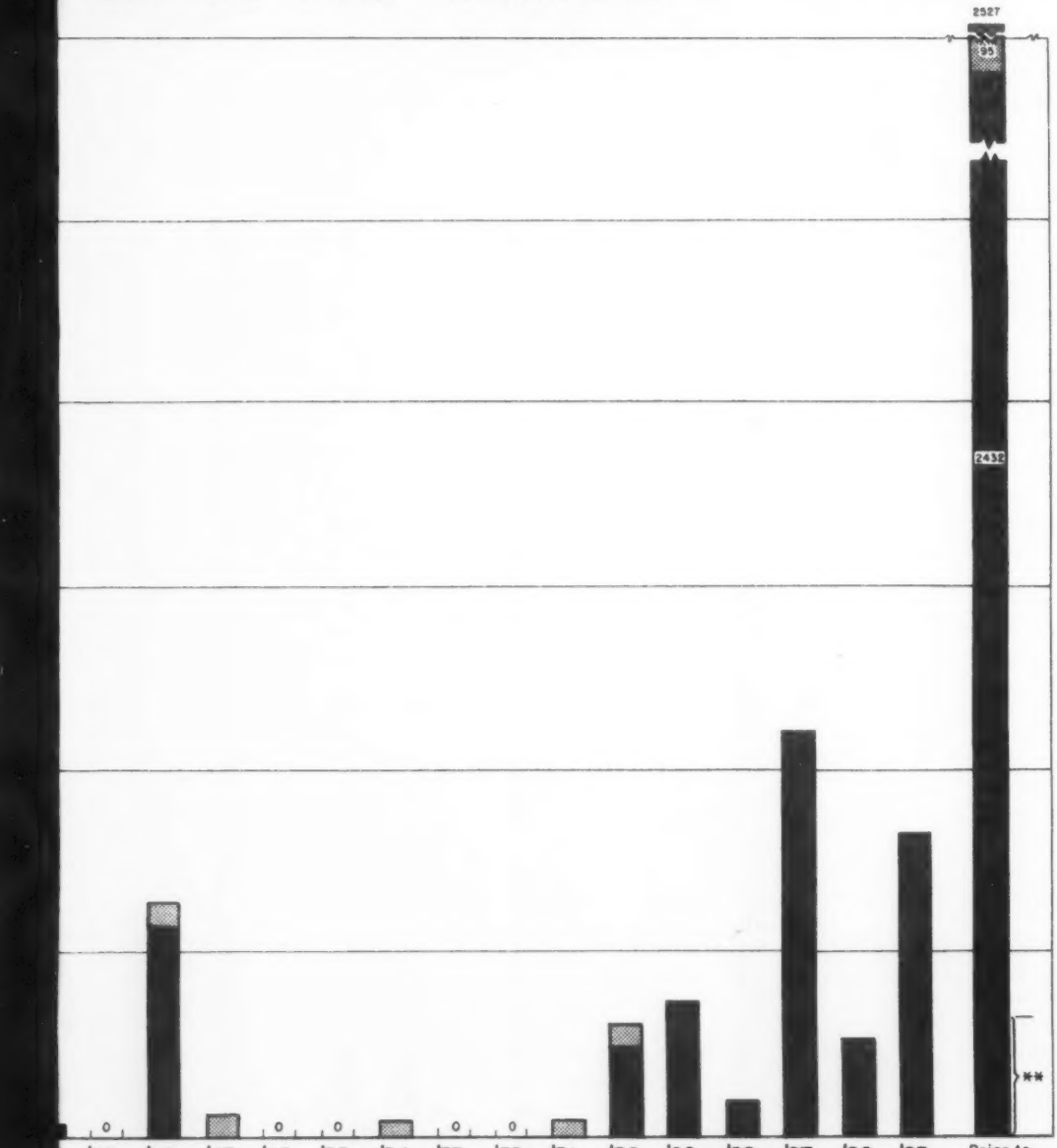
76857 O - 56 (Face p. 56)

MERCE – MARITIME ADMINISTRATION

S MERCHANT FLEET AS OF DECEMBER 31, 1955

NED SHIPS – NUMBER, DEADWEIGHT TONS AND YEAR BUILT

CARGO AND TANKERS*



	'39	'38	'37	'36	'35	'34	'33	'32	'31	'30	'29	'28	'27	'26	'25	Prior to 1925	TOTAL FLEET
	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31		
	–	6	1	–	–	2	–	–	1	3	3	2	9	2	7	307	395
	–	4	–	–	–	–	–	–	–	2	3	–	9	2	7	281	356
	–	2	1	–	–	2	–	–	1	1	–	2	–	–	–	26	39

PREPARED BY
ORGANIZATION AND METHODS STAFF
APRIL 13, 1956

The shipbuilding potential of Great Lakes shipyards will provide a significant wartime mobilization nucleus. At present, there are 15 ways on the lakes capable of building vessels of as much as 18,000 to 20,000 deadweight tons.

These 15 ways may produce up to 15 ships each year. In addition, shipyards on the Canadian side of the lakes will provide a valuable supply of shipbuilding facilities in time of national emergency.

The Maritime Administration has developed a ship design program which at present includes seven different vessel types. This program is designed to provide a broad basis for the purpose of establishing the physical characteristics desirable in ships which will comprise the future American merchant marine. It includes the design plans for a dry cargo bulk vessel which is intended to be not only a carrier of ore, but also of other dry bulk commodities, including bauxite, grain, and coal.

We realize that the development of the St. Lawrence seaway has resulted in increased American interest in the ore trade. We anticipate that the opening of the St. Lawrence seaway will make Labrador ore more competitive with Lake Superior ore, and that foreign-flag ships will undoubtedly seek to capture the Labrador to the United States movement.

We recognize that any new Great Lakes replacement vessels would be largely engaged in domestic traffic within the Great Lakes, although they would probably spend part of their time in a Canadian to the United States ore and grain movement.

Owners will desire to have this flexibility of use to engage partly in foreign commerce of the United States and partly in domestic commerce.

The Department of Commerce study entitled "A Review of the Coastwise and Intercoastal Shipping Trades," published in December 1955, concluded that there is no present need or justification for construction-differential subsidy to aid in the acquisition of vessels to be operated in the coastwise and intercoastal trades. Though this study did not deal specifically with the coastwise trade on the Great Lakes, the conclusion is applicable to such trade.

The Department recommends against favorable consideration of the bill.

Senator POTTER. Mr. Ford, your statement recognizes the fact that, not only on the drawing boards, but in the various shipyards of foreign countries, ships are now being built for the Great Lakes trade. You recognize also in your statement that our Great Lakes fleet is reaching a serious stage of obsolescence. And then it is the recommendation of the Department to oppose this bill.

Let me ask you this: Recognizing the facts that you have in your statement, what does the Department recommend as a means of modernizing our Great Lakes fleet in order to be competitive with foreign vessels?

Mr. FORD. Mr. Chairman, in our previous appearance before this committee in a study of the problem with regard to the carrying of ore, the possibility of granting an operating subsidy to those ships engaged in the foreign trade was discussed at considerable length.

At that time we indicated that we did not feel that at the present time we had the legal authority to grant such a subsidy with regard

to such carriers. We recommended at that time that the Congress consider giving us such authority.

Senator POTTER. Of course, that is the purpose of this bill, to give the Department authority to grant amounts for trading these vessels in order to modernize the fleet.

From the defense standpoint, do you feel that it is important, in case of a national emergency, to have an American owned and operated bulk carrier fleet on the Great Lakes engaged in the ore and grain trades?

Mr. FORD. We certainly do. Of course, this was one of the reasons why the Secretary of Commerce was so concerned with the lack of available United States-flag ships to take care of our wartime necessities with regard to our imports.

Senator POTTER. Do you think that we will be able to compete for the Labrador-United States trade with obsolete vessels against foreign-constructed new-design ships?

Mr. FORD. I do not. But we are not quarreling with the objectives of the bill. We sincerely hope that some formula can be reached whereby the obsolete Great Lakes fleet can be replaced. But we do question whether or not this is the formula.

Senator POTTER. Does the Department have a formula of its own?

Mr. FORD. No, sir. There was a formula which was used during World War II. This resulted in the construction of, I believe, 16 Great Lakes ore carriers.

Senator POTTER. That is the formula where they gave the world market value on——

Mr. FORD. Under the formula in conjunction with this construction there were accepted in exchange from 9 companies under section 510 of the Merchant Marine Act of 1936, as amended, 36 obsolete Great Lakes vessels with an average age of approximately 43 years. The trade-in allowance for these ships based on the then current market values was determined to be $63.75 per ton of cargo-carrying capacity. The capacity of the vessels traded in was permitted to exceed that of the new vessels constructed by not more than 10 percent.

Under section 510 D of the 1936 Act, consideration must be given to, (1) the scrap value of the vessels; (2) the depreciated value based on 20-year life; and (3) the market value for operation.

With the concurrence of the Comptroller General it was determined that a current market value of $63.75 per deadweight ton represented the fair and reasonable trade-in value. Due to their being operated in fresh water, the ships had been allowed for income-tax purposes depreciation rates based on useful life up to 60 years.

Since the vessels had substantial remaining useful lives, variations in age were not of great significance and an overall value per ton of cargo-carrying capacity was considered appropriate.

It was determined therefore that with respect to fresh-water vessels a depreciated life of 20 years did not have practical application. It was further concluded that under the conditions then present, which included the factor of remaining useful life and the high construction cost of new vessels, the Maritime Commission was justified in giving no weight to scrap value and therefore in allowing full market value.

It may be interesting to note at this time what happened under that program. The 36 obsolete Great Lakes ships traded in in 1943 were

chartered back at that time to their former owners for operation. On November 30, 1945, 29 of them were sold under competitive bids for scrapping. One continued under charter and sold for scrap on December 5, 1947. The other six continued under charter operation on the Great Lakes until sold for scrap on October 30, 1953.

Senator POTTER. Have they all been scrapped now?

Mr. FORD. Yes, sir.

Senator POTTER. Would the Department feel that that type of program would be applicable now?

Mr. FORD. Mr. Chairman, we have been giving a great deal of thought to this problem. We realize that some formula should be reached for the trade-in of these vessels. At the present time we do not have such a formula. We have no applications for trade-in at this time.

Senator POTTER. In other words, you recognize the problem that something must be done and done quickly to modernize the fleet.

Mr. FORD. Yes, sir.

Senator POTTER. You have no suggestion, the Department has no suggestion, to offer at this time?

Mr. FORD. That's right.

Senator POTTER. At the same time you are compelled to oppose the present formula that is submitted in this bill. Do I summarize it correctly?

Mr. FORD. We feel that a formula should be reached. We feel, however, that the formula outlined in the bill constitutes the granting of a construction subsidy in the domestic trade which we do not grant to other operators in the domestic trade. There is probably another solution.

Senator POTTER. Do you have some questions, counsel?

Mr. BOURBON. Yes, sir. Admiral, you said that in your study review of coastwise and intercoastal shipping trade you came to the conclusion there is no need or justification at the present time for construction differential subsidies for vessels on the Great Lakes. When the St. Lawrence seaway is opened, do you think that there will be a change in that situation, where the competitive situation up there will justify or might justify granting of construction differential subsidies?

Mr. FORD. When the St. Lawrence seaway is opened, we have made a finding of essentiality for the Great Lakes trade route, but that is in the foreign trade, which is in foreign competition. We feel that the domestic operators, where they are in a closed trade and they have no foreign competition, are not entitled to a construction subsidy.

Senator POTTER. Of course, you will find that a great many of your domestic operators will be engaged in foreign trade. As you mentioned in your statement, many of them will not only be hauling ore from the Lake Superior region to the various Great Lakes ports, but also from beyond, in the Labrador region, which will be foreign trade.

They will be competitive factors. Foreign vessels will be a real competitive factor. I doubt if ours will be able to compete.

Of course, what I am fearful of, too, is that you will see some of our domestic operators who have been plying on the Great Lakes trade, unless some remedy is found in the present situation, going over and building their ships in foreign yards. This would further harm

our struggling Great Lakes shipbuilding industry, which is so vital in time of war.

Mr. BOURBON. Admiral, in your previous statement on ore vessel construction, I believe it was suggested that Venezuela and possibly Liberian trade might be deemed an essential trade route and therefore the possibility of construction differential would enter into it. Do you think with the St. Lawrence seaway there is a possibility that the Labrador-Great Lakes route could be considered as an essential trade route?

Mr. STAKEM. I am Thomas E. Stakem, Jr., Assistant Deputy Administrator, Maritime Administration. At the present time, Mr. Bourbon, we do not have a formal study under way with respect to the Labrador ore movement looking toward the declaration of that relative to the United States as an essential trade route. We do recognize that it is a carriage of one commodity only and that, eventually, as our demand for ore increases on the foreign side, we will get into a study of the essentiality of that.

Mr. BOURBON. Then your consideration of this bill was directed to and entirely involving only domestic operations?

Mr. STAKEM. That's right.

Mr. BOURBON. Admiral, I believe you said that during World War II trade-ins, you were allowing $63 a ton?

Mr. FORD. Yes, sir.

Mr. BOURBON. At that time wasn't that somewhere near 50 percent of the new construction costs? I believe I saw a figure that the new construction cost at that time was $128 a ton.

Mr. FORD. The cost per ton, the average cost per ton was—I would like to submit that for the record. I believe that is substantially correct.

Mr. BOURBON. Getting back to that line of thought for just a moment, what percentage of today's construction cost do you think that such a trade-in as you had in 1941–43 might provide. That is, a trade-in on the world market value. If you could use that formula today, could you determine for us about what percentage of new construction cost that would permit you to allow?

Mr. FORD. The foreign cost of shipbuilding, as you know, is the determining factor in construction costs. At the present time the allowance which has been determined for the ships that are presently being built under the construction-subsidy formula has been about 42 percent. I don't know how that would apply to a bulk carrier of this sort.

Mr. BOURBON. Do you believe that the provisions of the 1936 act for trade-in would be of any appreciable help toward replacement of the ships on the Great Lakes?

Mr. FORD. The present provisions of the act would be of no help whatsoever in view of the fact that the ships are over 20 years of age and have presumably passed their useful life. But since they are operating in fresh water they do have an extended life, as we know.

Mr. BOURBON. And that could be taken into consideration in a trade-in program?

Mr. FORD. Yes, sir.

Mr. BOURBON. Thank you. That is all that I have, Mr. Chairman.

Senator POTTER. Thank you, Mr. Ford.

Admiral Spencer?

STATEMENT OF LYNDON SPENCER, PRESIDENT, LAKE CARRIERS ASSOCIATION, ACCOMPANIED BY GILBERT R. JOHNSON, COUNSEL, LAKE CARRIERS ASSOCIATION

Senator POTTER. Admiral Spencer is the president of the Lake Carriers Association.

We are glad to have you before the committee. We know of your great interest in modernizing our Great Lakes fleet. I hope you also have Mr. Johnson, who is general counsel, with you.

Mr. SPENCER. That is right, sir. I was going to introduce Mr. Johnson. You have saved me that pleasure.

Senator POTTER. You have a prepared statement, I note. Are you prepared to read it?

Mr. SPENCER. I would like to very much, sir.

Senator POTTER. You may proceed.

Mr. SPENCER. My name is Lyndon Spencer. I am president of Lake Carriers Association, an organization whose members operate 312 United States-flag, bulk-cargo vessels on the Great Lakes. The association appreciates the opportunity to appear before this subcommittee in support of S. 3108.

There are on the Great Lakes, documented under the laws of the United States, 343 vessels capable of transporting bulk commodities such as iron ore, limestone, coal, and grain.

(The table referred to above is as follows:)

EXHIBIT 1.—*United States Great Lakes bulk freight vessels by fleets*

Fleet	Number of vessels	Average age	Capacity of fleet
		Years	*Tons*
Members of Lake Carriers Association:			
American Steel & Wire Co	1	54	6,500
Bethlehem Transportation Corp., Cambria and Mahoning Steamship Co	12	35	156,500
Boland & Cornelius	23	42	217,700
Bradley Transportation Line	7	31	85,100
Brown Steamship Co	2	48	14,800
Buckeye Steamship Co	14	53	110,100
Cargo Carriers, Inc	3	50	22,500
Cleveland-Cliffs Iron Co	16	36	192,900
Columbia Transportation Co	26	45	202,600
Gartland Steamship Co	6	49	50,600
Great Lakes Steamship Co	16	41	169,600
Hanna Co., the M. A., agents	10	28	155,100
Huron Portland Cement Co	6	41	36,000
Hutchinson & Co., managers, Inland Steel and Pioneer Steamship Cos	22	41	251,100
Interlake Steamship Co	32	37	388,800
International Harvester Co	2	39	24,000
Kinsman Transit Co	5	50	46,700
Midland Steamship Line, Inc	4	45	41,900
Pittsburgh Steamship Division	59	36	792,300
Reiss, Rockport, and Red Arrow Steamship Cos	12	40	124,700
Republic Steel Corp	3	10	42,000
Shenango Furnace Co	3	45	41,700
Tomlinson Fleet Corp	9	47	87,300
Waterways Navigation Co	1	54	6,800
Wilson Transit Co	14	43	158,600
Wyandotte Transportation Co	4	44	24,800
Others:			
Browning Steamship Co., T. H	5	49	47,700
Construction Aggregates Corp	1	.....	(1)
Construction Materials Corp	1	72	(1)
Erie Sand Steamship Co	3	52	(1)
Ford Motor Co	3	23	43,750
Jupiter Steamship Co. and affiliates	3	56	20,000
McCarthy Steamship Co., T. J	3	54	(1)
Nicholson Transit Co	11	50	(1)
Penn-Dixie Cement Co	1	33	(1)
Total	343	.....	3,562,150

[1] Not known.

Mr. SPENCER. We have those vessels listed in exhibit 1, showing the ownership, the number of vessels owned by each company, the average age of the ships in each company, and the capacity. By capacity is meant the carrying capacity of the fleet. That is a trip capacity, sir.

The movement of these commodities constitutes better than 95 percent of the total commerce of the Great Lakes. The importance of this traffic in bulk commodities to the economy and the national defense cannot be overemphasized. During World War II, United States vessels moved about 800 million tons of commodities over the Great Lakes. This was nearly four times the entire commerce carried by our ocean merchant marine during the same period. Today about 25 percent of the total waterborne commerce of the United States moves between ports on the Great Lakes. (S. Rept. 1635, 84th Cong., 2d sess., p. 4.)

The greatest agricultural and industrial production area in the world is concentrated in the Great Lakes region. It depends upon efficient transportation. In the shipping industry of the Great Lakes we have a transportation system unmatched anywhere in the world for moving huge tonnages of bulk commodities at the lowest possible cost. Built on a system of free enterprise and private ownership without the direct assistance of Government, this system of transportation is one of our greatest economic assets. Without it we could not have successfully fought two World Wars or faced up to the Korean emergency. It is of benefit to any citizen who uses a piece of steel in any form or takes a crumb of bread with his daily meal.

Eighty percent of the iron ore consumed in this country moves over the Great Lakes. During World War II, when overseas sources of iron ore were entirely cut off by enemy submarine activity, Great Lakes vessels kept 90 percent of the Nation's steel industry, including that along the Atlantic seaboard, supplied with iron ore. Only last month the Senate Committee on Public Works, in recommending the passage of legislation authorizing the deepening of the connecting channels of the Great Lakes, pointed out that during a national emergency, "* * * the ore fields of the upper lakes might be the only source of raw material available * * *." (Senate Report No. 1635 *supra*, p. 4.)

In his testimony on the subject of iron ore, Mr. Frank Pardee, president of Lake Superior Iron Ore Association, will show that there still remains an adequate supply of iron ore in the Great Lakes area for future emergency demands. Suffice it for me to say that in any future conflict the Great Lakes will afford the only protected route for the movement of this ore and other vital commodities.

In addition to iron ore, however, Great Lakes vessels carry substantial quantities of limestone used by the steel, chemical, and construction industries. Much of the coal consumed throughout the great Northwest and Canada must first be transported over the Great Lakes. Great Lakes vessels form an indispensable link in the movement of grain, both for domestic consumption and for export. The quantities of these commodities moved by Great Lakes vessels are indeed impressive. They are shown in exhibit 2, Mr. Chairman, which are attached hereto.

Senator POTTER. All exhibits will be made a part of the record.

(The document referred to above is as follows:)

EXHIBIT 2.—*Great Lakes bulk freight commerce (1951–55)*

[Net tons]

Year	By commodities				
	Iron ore	Coal	Stone	Grain	Total
1951	99, 783, 053	50, 945, 656	25, 871, 319	13, 150, 144	189, 750, 172
1952	83, 900, 094	46, 284, 192	23, 277, 942	15, 214, 778	168, 677, 006
1953	107, 345, 783	51, 034, 713	26, 999, 207	14, 317, 229	199, 696, 932
1954	68, 088, 941	46, 367, 167	24, 975, 440	11, 866, 241	151, 297, 789
1955	99, 870, 369	53, 378, 385	29, 722, 293	10, 787, 786	193, 758, 833

Year	By domestic and international trades			
	Between United States ports	Between United States ports and Canadian ports	Between Canadian ports	Total
1951 [1]	158, 059, 000	24, 093, 000	7, 598, 000	189, 750, 000
1952	136, 741, 000	21, 936, 000	10, 000, 000	168, 677, 000
1953	165, 196, 000	24, 500, 000	10, 000, 000	199, 696, 000
1954	124, 849, 000	19, 348, 000	7, 100, 000	151, 297, 000
1955	161, 358, 000	25, 600, 000	7, 800, 000	193, 758, 000

[1] 1951 figures actual—other years estimates. All figures in total column are actual to nearest 1,000 tons.

Mr. SPENCER. There can be no question but that the economy and the national defense of this country require the maintenance at all times of a strong citizen-owned and citizen-manned bulk cargo fleet on the Great Lakes. Of the 343 vessels previously mentioned, only 25 have been built since World War II. By 1960 better than 213 vessels, or 62 percent of the fleet, will be 50 or more years old, as exhibit 2 shows.

(The table referred to above is as follows:)

EXHIBIT 3.—*United States bulk cargo vessels (iron ore, limestone, coal, grain, and similar commodities)*

	Number of vessels	Trip carrying capacity
Conventional bulk type	284	3, 106, 453
Self-unloader bulk type	59	455, 697
Total	343	[1] 3, 562, 150

Year built	Number of vessels	Percent of total
1910 and prior	213	62. 9
1911 to 1920	46	13. 4
1921 to 1930	33	9. 6
1931 to 1940	4	1. 1
1941 to 1950	22	6. 4
1951 to 1955	25	7. 2
Total	343	

[1] Approximate.

Mr. SPENCER. By today's standards, such vessels are relatively inefficient and absolute. Many of them should be replaced if the shipping industry of the Great Lakes is to keep pace with the expanding national economy and defense requirements.

Yet today shipbuilding on the Great Lakes is literally at a standstill. No new bulk cargo vessels are on order. As the older vessels in the fleet reach the end of their useful economic life, they are being scrapped or sold for nonmaritime use. Only last year 15 vessels were retired from Great Lakes service with no announced plans to replace them. If this trend continues, it could well jeopardize the future security of the Nation.

Why do Great Lakes vessel operators lack the necessary incentive to undertake new construction? The answer is plain and can be briefly summarized as due to (1) the increasing importation of foreign ores with a resulting decrease in the demand for Lake Superior ores, and (2) the inability of United States vessels with their high construction and operating costs to compete for the growing international trade between Canada and the United States.

Before World War II relatively little iron ore was imported into the United States, but now the consumption of foreign iron ore is rapidly increasing. It is predicted foreign ores eventually will supply about 40 percent of the ore used in this country. Such an amount of ore will be more than enough to take care of the expanding steel production of the Nation. It will do more than augment domestic ores. It will compete with them and to some extent displace them.

One of the principal sources of foreign ore is Canada. Production in some of the new reserves there has really just started but is going to grow by leaps and bounds. Much of this ore is presently shipped over the Great Lakes and the amount of such shipments is sure to increase and swell the already large international trade between Canada and the United States. In 1955 this trade in bulk commodities amounted to 28 million tons.

Considering the expected growth and industrial expansion which will take place in the Great Lakes region during the next few years, this international trade may well reach 45 million to 50 million tons annually by 1960 and will include not just iron ore but wheat, coal, and limestone as well.

Vessels of the United States must fight for their share of this international trade and it is proving to be a losing battle. In early years, American operators were able to capture a fair share of this traffic because the Canadian fleet then in existence was relatively small and mostly employed is domestic trade. However, in the last few years the Canadians have made tremendous strides in the development of their Great Lakes fleet, having added 223,000 tons of carrying capacity. With this augmented and improved fleet, the Canadians have been able to capture the lion's share of the growing international trade between the United States and Canada. Last year, for example, American vessels carried less than 29 percent of this commerce, whereas 30 years ago they carried better than 76 percent. Today the international commerce moving on the Great Lakes in Canadian vessels far exceeds the domestic trade of Canada in the same area. That also is shown in exhibit 2.

United States vessels have lost ground to their Canadian competitors because Canadian vessel costs are only about two-thirds of ours. The Canadians have an additional advantage taxwise in that they have been permitted since January 1, 1949, to elect to depreciate in any 1 year as much as 33⅓ percent of the total capital cost of vessel construction and reconstruction—Canadian Vessel Construction Assistance Act, RSC 1952, chapter 43, as amended.

Senator POTTER. I assume that tax benefit was one reason for the great increase in their shipbuilding program?

Mr. SPENCER. Absolutely.

Mr. BOURBON. Is there any comparable provision in our law for rapid depreciation?

Mr. SPENCER. The only thing at all comparable would be the certificates of necessity granted by the Department of Defense, and those are not now available.

While, as the members of this subcommittee well know, international trade is open to the vessels of all nations, such traffic on the Great Lakes has thus far been almost entirely in vessels of the United States and Canada because the limited capacity of the canals in the St. Lawrence River area has prevented large, low-cost foreign vessels from entering the lakes.

Completion of the St. Lawrence seaway, which is only 3 years away, will admit foreign-flag vessels equally as large and efficient as the largest Great Lakes vessel. The construction costs of foreign vessels average about 40 percent of the cost of vessels built in the United States and their operating costs average less than 55 percent of ours.

Construction of the seaway has been very largely justified on the basis of the benefits to be derived from direct Great Lakes overseas commerce. It is not my purpose to detract from or minimize those benefits which ultimately will accrue to all our peoples, but it cannot be emphasized too strongly that once the seaway is completed the international commerce of bulk commodities between the United States and Canada will be thrown open to the vessels of all nations. This trade will exceed many times the direct overseas commerce through the seaway. There can be no doubt that from the standpoint of shipping, foreign-flag operators will reap the big benefits from this new avenue of commerce, probably at the expense of Great Lakes operators.

If United States vessels have not been able to hold their own in the international trade when their only competition has been Canadian ships, how can they hope to keep any of this business against the still lower cost overseas foreign vessels? Without adequate safeguards our vessels cannot hope to compete for this trade. Our fleet will then diminish to a point where it will be just sufficient to transport the Nation's peacetime domestic commerce in bulk commodities produced in the Great Lakes area.

It would be fallacy to assume that, even in the purely domestic trade, Great Lakes vessels would be free from the effects of foreign-flag competition. Transportation charges are a major factor in the cost of bulk commodities. Because water carriers have the faculty for providing high-volume low-cost transportation over long distances, they create a large share of their own traffic. In the future the size of the commodity movement in the domestic trades of the Great Lakes will very largely depend upon the ability of Great Lakes vessels to

keep these commodities, such as iron ore, limestone, coal, and grain, competitive in the market place with the same foreign commodities.

Senator POTTER. Admiral Spencer, the effects go even much farther than just the shipping interests. If, for example, we have more and more foreign importation of iron ore in competition with our domestic mines, we will find that we will have mines that will close up, many people will be out of work in the mining areas, and then if we should ever have a national emergency we would have mines many of which would be flooded and we would have difficulty in supplying the ore that would be so badly needed in time of national emergency. So it is vitally important for national defense not only to have an American fleet operating on the Great Lakes, but also to have the mines in operation and the trained labor that is in the area there so that in case of war, where we might be shut off from our foreign sources of supply of iron ore, it would be within our own country and readily available for use.

Mr. SPENCER. I can add nothing to that. You said it so much better than I could, except to mention the shipyards and the trained people there which will be gone also if we don't have some construction.

Senator POTTER. That is correct.

Mr. SPENCER. Confronted with these facts, there is ltle wonder that the American operator is reluctant to undertake new construction. To maintain an adequate privately owned fleet of bulk-cargo vessels on the Great Lakes, a national policy must be adopted which will enable the American-flag vessel to take its rightful place in the future commerce of the Great Lakes. Such a policy must, of necessity, envisage the replacement of many of the older vessels in the fleet with new efficient vessels capable of meeting foreign-flag competition in all its various aspects.

The only way to realize these objectives is through a long-range construction program, a program which will provide a fleet capable of transporting not only our domestic commerce but a fair share of the expanding commerce with Canada as well.

Under present law we have neither a policy nor a program for encouraging new construction on the Great Lakes. Section 605 of the Merchant Marine Act, 1936, as amended, excludes every vessel operating on the Great Lakes from construction and operating differential subsidies (46 U. S. C. A. 1175). Even were this restriction removed, however, the type of subsidies available under the 1936 act would be of little assistance to those engaged in the transportation of bulk commodities on the Great Lakes.

Senator POTTER. Admiral, would you expand on that statement a little more?

Mr. SPENCER. I think I do as I go along. If I may go on, if there is any point I haven't covered I will try to do so.

Sentor POTTER. Please do so.

Mr. SPENCER. In order to qualify for an operating differential subsidy contract, the owner must be willing to operate his vessels exclusively in foreign commerce, on an essential trade route. The Maritime Administration takes the position that, as a matter of general policy, aid of this type is limited to common carriers. (Letter to Senator Magnuson from the Maritime Administrator, December 1955).

On the Great Lakes the movement of bulk commodities does not

lend itself to a common-carrier type of operation. In that transportation the vessels are either contract or private carriers.

Under section 805 of the 1936 act an operating differential subsidy contract may not be granted, even if the vessel owner is engaged exclusively in foreign trades, if the subsidy results in unfair competition to any person, firm or corporation engaged in coastwise trade. Furthermore, no one holding an operating differential subsidy contract can engage in, or have any connection whatsoever with those who do have engaged in, the domestic trades without the written permission of the Maritime Administration. 46 U. S. C. A. § 1223.

Were the Great Lakes restriction in section 605 removed, the construction differential subsidy provisions would still not be suitable for Great Lakes operations. Other requirements being met, any new vessel to be used in the foreign commerce of the United States is eligible for a construction differential subsidy, provided the Maritime Administrator finds that the granting of such aid will carry out effectively the purposes of the act. 46 U. S. C. A. § 1151.

Under section 506 every owner of a vessel for which a construction differential subsidy has been paid, however, must agree that the vessel shall be operated exclusively in foreign trade. 46 U. S. C. A. § 1156.

While the Administrator has authority to consent in writing to the temporary transfer of a vessel to a different service for periods not exceeding 6 months in any 1 year, our information is that in practice consent will not be granted where it is found that such consent will result in competition to those already operating in the particular service for which permission is sought.

Senator POTTER. Has permission ever been granted?

Mr. SPENCER. Not to my knowledge, sir. I think someone from the Maritime Administration could answer that better, though. I know of no case.

To attempt to apply either or both of the construction and operating subsidy provisions of the 1936 act to the Great Lakes would neither further the purpose of the act nor strengthen the Great Lakes bulk cargo fleet. It is abundantly clear that these provisions were designed to meet the requirements of the offshore regular route trades which, as a general rule, are completely separate and distinct from, and not competitive with, the coastwise and intercoastal trades. Such is certainly not the case on the Great Lakes.

As previously mentioned, on the Great Lakes the traffic with Canada is closely interwoven with our own domestic commerce. Vessels are in and out of the two trades from one trip to the next and efficiency of operation depends upon the quick interchange of use.

To illustrate, a vessel might load at an Erie port for an upper lake Canadian port. After discharging her coal cargo, the same vessel might proceed to Duluth-Superior and take on a cargo of iron ore for the Chicago area. She could then load export grain at Chicago for Canadian ports above the St. Lawrence River or, when the Seaway is completed, she could load such export grain for Montreal or Quebec.

After discharging her grain cargo the vessel could then take on a cargo of iron ore at Seven Islands for transportation back to a Lake Erie port. It can be readily seen that to impose restrictions, directly

or indirectly, upon the freedom of use would seriously curtail the efficiency of such a vessel. To undertake to freeze a vessel in international trade between the United States and Canada would be contrary to good operating practice. In principle, both the construction and operating differential subsidies are wholly unsuited to Great Lakes operations.

The only type of aid, available to Great Lakes operators under the 1936 act, is that provided by the trade-in provisions of section 510. 46 U. S. C. A. § 1160. Recognizing that a sound merchant marine policy must comprehend a realistic replacement program in both the foreign and domestic trades, the Congress in 1939 enacted section 510. Originally part of the then Maritime Commission's recommendations for legislation submitted to the 76th Congress (H. Doc. No. 208, 76th Cong., 1st sess.) section 510 established a new trade-in policy by offering vessel operators a method of disposing of their older vessels in the most generous world market. This advantage could be realized, however, only in terms of new construction. In proposing section 510 the Commission pointed out that:

> Vessels acquired under the proposal can be placed in the laid-up fleet if it is desired to preserve their national-defense value for the United States, or can be scrapped as already provided in the act. The Government would thus be reimbursed in the form of property or cash, except insofar as there is a difference occasioned by considerations of national policy which concern every other citizen as well as the shipowner, and would realize the advantage of new ships as well. (H. Doc. No. 208, supra, pages 6, 7.)

Reporting favorably on the legislation, the House Committee on Merchant Marine and Fisheries said:

> The Merchant Marine Act, 1936, expresses the governmental policy that vessels over 20 years of age should be replaced, but unless their owners are permitted an outlet whereby they can dispose of the older vessels, it is idle to expect them to contract for new ones.
>
> United States scrap market prices are not sufficiently remunerative to offer an inducement to replace old ships, but available prices in the world market are far more liberal. (H. Rept. No. 824, 76th Cong., 1st sess., p. 6.)

Section 510 was intended to provide an incentive, other than by way of subsidy, to shipowners to replace the older vessels in their fleets. In recommending the Commission's proposal to the Congress, the Committee on Merchant Marine and Fisheries stated:

> The Commission's proposal contains no element of subsidy, but would afford a measure of relief from a statutory restriction peculiar to our shipping and would provide an incentive to replace the older vessels with efficient craft of modern design. (H. Rept. No. 824, supra, p. 2.)

The purpose of section 510 was first discussed by the Comptroller General of the United States in a ruling dated February 7, 1943, and addressed to the Chairman of the then Maritime Commission. (B–32105, Feb. 17, 1943.)

At that time the Maritime Commission was seeking the Comptroller General's advice on the validity of a proposal whereby the Commission would sell 16 ore carriers constructed for the account of the Commission to private operators on the Great Lakes and permit such operators to turn in to the Commission 39 old vessels under the provisions of section 510. This is the same thing of which Admiral Ford spoke.

It appears from the ruling that the cost of the new vessels was about $155.10 per ton of cargo carrying capacity and that the Commission proposed to acquire the obsolete vessels for an allowance of

credit equal to $63.75 per carrying ton. In determining the amount of the allowance, no weight was given to the scrap value of the obsolete vessels or values resulting from a 20-year life. It was recognized at the time that—

> the valuation of $63.75 is in excess of normal values of lake vessels of comparable age and type, but this is equally true of the construction cost of new vessels.

In approving the proposal of the Commission the Comptroller General observed that section 510 contemplated a situation, whether in times of national emergency or not, where the mutual consent of the Government and of the private owner to the terms of the exchange and sale transaction is necessary to its consummation. He pointed out that:

> * * * the allowance of credit was intended as an incentive to owners of obsolete vessels to cooperate with the Government in modernizing the merchant marine. It would seem apparent, therefore, that if the construction cost of the new vessel, which the private operator must assume under the contract of purchase, is abnormally high—that is, if it is an inopportune time generally to buy or build a new vessel from the standpoint of normal prices or costs—private owners will be reluctant to enter into a deal involving the assumption of such costs unless the increased costs are taken into consideration in the allowance of credit on their old vessel in such way as to offset—to some extent at least—the disadvantage of purchasing a new vessel at such time. In other words, it would seem to be obvious that unless the offer of credit to the shipowner is sufficiently attractive in amount to induce him to contract for the purchase of the new vessel, the program which said section 510 contemplates cannot be carried out.

He went on to say that:

> The circumstances attending a particular sale, or series of sales, are so varied in nature—having regard to the condition of the obsolete vessel and the uses to which it is being or may be put—that the conclusion would seem inescapable in listing three separate standards of valuation in section 510 (d) Congress intended only that in determining the fair and reasonable value of a vessel as a basis of a credit allowance, each standard be given due consideration with a view to selecting that standard which under all the facts and circumstances of the particular case provides the most appropriate guide to such fair and reasonable value.

The difficulty with section 510 at the present time is that in the case of Great Lakes vessels there is no established world market. The only trade-in of Great Lakes vessels has been that referred to in the ruling of the Comptroller General of February 17, 1943. From the standpoint of then existing costs, it was inopportune to buy or build a new vessel. Because of the uncertainties of war, private operators were reluctant to enter into transactions involving new construction unless the increased construction cost of new vessels was taken into consideration in determining the allowance of credit.

Both the Maritime Commission and the Comptroller General recognized that to carry out the program which section 510 contemplates, the allowance of credit had to be sufficiently attractive in amount to induce private operators to purchase the new vessels. These practical considerations led the Commission to allow and the Comptroller General to uphold an allowance of credit, the equivalent of 40 to 45 percent of the cost, per carrying ton, of the new vessels, even though under ordinary circumstances such an allowance might not be justifiable.

The situation facing Great Lakes operators today is equally as grave as that during World War II, if not more so. The shifting of major iron ore sources and the prospects of vigorous foreign flag competition have, in effect, reduced the normal value of any new vessel far below its actual construction cost. The time is generally inopportune to buy or build a new vessel from the standpoint of profitable operation. Consequently, unless the high cost disadvantage of building a new vessel is given proper weight in determining the allowance of credit, the trade-in provisions of section 510 are of little value in encouraging new construction.

Despite these practical considerations, however, informal discussions with the Maritime Administration indicate that there is little prospect that anything much above scrap value would be allowed on the turn-in of a Great Lakes vessel. Thus, as matters now stand, section 510 and the program which it contemplates are wholly inadequate and ineffective so far as encouraging new construction on the Great Lakes is concerned.

Senator POTTER. Admiral, if the Maritime Board would now give you the same consideration as they did in 1940 and 1943, and make an allowance over and above the actual value of the trade-in value of the ship, would that be a sufficient incentive for new construction?

Mr. SPENCER. I feel very certain that if the allowance were comparable to that back in 1943 there would be many new ships constructed.

By utilizing foreign construction costs in determining the credit allowance, S. 3108 merely seeks to put a realistic and workable standard for Great Lakes vessels into section 510. The only realistic approach to the problem is to adopt a trade-in policy which will recognize, in determining the allowance of credit, that the cost of building a new vessel in the United States far exceeds its normal value and that old vessels traded in would have a far greater value to a foreign ship owner, because of his lesser operating costs, than to the domestic owner. No trade-in-and-build program can succeed if the credit allowance is not sufficient to allow the vessel operator to acquire the new vessel at a price which is realistic in the light of the competition he must meet.

Mr. BOURBON. Would a trade-out program be of any help? Could you sell any of these vessels foreign toward new construction?

Mr. SPENCER. I know of no market for them because they are not capable of going on the oceans. They would be limited strictly to the Lakes trade. The Canadians do not provide a market anymore. They used to buy our old ships. But now they can build them and operate them at so much less than we can that they are more interested in having new ships than they are in having our old ones.

Because foreign construction costs would be utilized in determining the allowance of credit, however, there are those who feel that S. 3108 would simply provide construction subsidies for vessels used in the domestic trades. In December, 1955, Department of Commerce published a study entitled "A Review of the Coastwise and Intercoastal Shipping Trades," wherein it is concluded that no basis exists upon which construction subsidies can be justified for vessels to be operated in the coastwise trades, inasmuch as foreign-built ships are prohibited from engaging in such trades. While this study did not deal specifi-

cally with the Great Lakes, the Maritime Administration apparently feels that the conclusions there expressed should apply with equal force to the domestic commerce of the Great Lakes. See statement of Walter C. Ford, Deputy Maritime Administrator, before this subcommittee on Ore Vessel Construction and Operation, March 14, 1956.

Senator POTTER. I think it is well to point out here that foreign-built and foreign-operated ships do compete with our Great Lakes shipowners.

Mr. SPENCER. On the Great Lakes they certainly do. Perhaps they are right in saying they don't in other places.

Senator POTTER. You do not only have the competition from the Canadian-American trade but you have the competition from foreign ore competing with domestic ore.

Mr. SPENCER. That is right, decreasing the need for domestic ore.

While it is true that foreign-built vessels cannot engage in commerce between United States ports on the Great Lakes, American-flag vessels engaged in these trades, nevertheless, feel the effects of foreign-flag competition. This is particularly true, as already pointed out, in the case of the bulk commodities. Great Lakes vessels play an important part in the marketing of our products. The more efficient our own vessels, the better United States industry and agriculture will be able to compete with foreign products as, for example, Lake Superior iron ore in supplying the needs of our steel industry and the United States farmer in marketing his grain.

Relief is urgent and should be immediate. The Seaway, it is said, will be completed for the passage of large vessels upon the opening of navigation in the spring of 1959. Whether or not a trade-in-and-build program is enacted as an amendment to section 510 or as a separate section in the Merchant Marine Act, 1936, is immaterial. The important thing is that the Congress adopt an enlightened trade-in-and-build policy for Great Lakes vessels which will enable them to meet foreign competition and emergency needs.

With respect to international trade on the Great Lakes, United States vessels should be adequate, upon the opening of the Seaway, to transport a substantial portion, at least 50 percent, of the existing and anticipated commerce in the bulk trades with Canada. It goes without saying that Great Lakes vessels under United States flag should be capable of moving all domestic commerce in time of peace and in time of emergency. It is with respect to emergency or war that a reserve fleet of bulk cargo vessels is urgently needed. When the overseas sources of iron ore and other strategic materials are cut off, those materials will again have to be obtained in the Great Lakes area and will again have to be moved from the mines to the consuming mills in Great Lakes vessels.

Now what are the facts with respect to emergency requirements? Today the total annual ingot capacity of the United States steel industry stands at 128,500,000 tons. Representatives of that industry have stated that ingot capacity must be increased at the rate of 4 million tons per annum for a period of years to meet the requirements of our expanding national economy.

In the matter of total iron ore requirements there does not seem to be complete unanimity among the authorities. If one follows the rule of thumb that approximately 1 ton of iron ore is required to produce

each ton of steel, by 1960 the iron ore requirements of the steel industry will have reached 144,500,000 tons.

On the other hand, if one adopts the very conservative estimate of the study of V. D. Johnston, published in the October 1955 issue of Skillings' Mining Review and to be discussed by Mr. Frank Pardee of the Lake Superior Iron Ore Association, the total amount of iron ore required by 1960 will be a little less than 135 million tons, still a very considerable volume.

As to the sources of iron ore, the same study shows that about 81 million tons will come from the Lake Superior district, 17 million tons from other United States sources, 20,300,000 tons from Canada, and 21 million tons from other foreign or overseas sources.

Past experience has shown that in the event of war overseas sources of iron ore are closed completely so that in any future conflict the Lake Superior district and Canada will have to supply the greatly increased demand of the Nation's steel industry. In that event, a tremendous burden would be thrown upon United States vessels in the Great Lakes fleet. They would have to move not only all the iron ore mined in the Lake Superior district but probably the major proportion of that mined in Canada.

On the basis of peacetime requirements alone, the minimum quantity of iron ore which United States vessels should be prepared to move by 1960 is about 112 million tons per season of navigation. At the same time other essential commodities such as coal, limestone, and grain would have to be transported in large volume. Over the last 5 years the commerce of these commodities has averaged about 73 million tons per season. It is likely to be greatly increased by 1960.

It stands to reason that, even with the most ambitious building program, the Great Lakes fleet cannot be built up to meet these requirements entirely. Therefore, a reserve fleet for use in emergency is essential. Many of the older vessels in the present-day fleet, while incapable of meeting foreign-flag competition, nevertheless, have considerable national defense value.

Reference need only be made to the previously mentioned obsolete vessels, which actually totaled 36 and which were traded into the Maritime Commission in 1943. After those vessels were transferred to the Commission they were effectively utilized during the remainder of World War II in carrying iron ore and the other vital commodities. Having an aggregate per season carrying capacity of about 8,500,000 tons, their total contribution to the war effort, after trade-in, amounted to about 25,500,000 tons of basic raw materials. S. 3108 would provide such a Great Lakes reserve fleet.

Senator POTTER. Isn't it true, Admiral Spencer, that even with the utilization of the obsolete vessels in World War II we had to have legislation to allow Canadian vessels to ship from American ports to American ports?

Mr. SPENCER. That is true. Each year of the war there was special legislation which permitted Canadian vessels to carry iron ore between the ports of the United States. Even with that legislation they were of very little help, though. The amount of iron ore they carried never reached any great amount.

Senator POTTER. We can anticipate if we should ever have another national emergency that the requirements for iron ore would be so

much greater than even in the last war that it would create a real problem.

Mr. SPENCER. It certainly would.

In summary, then, it may be said that without the incentive proposed by S. 3108, the time will rapidly approach when American-flag vessel capacity on the Great Lakes will decline to a level where it will be sufficient only to serve the domestic peacetime trades. In that event the people of the United States would be dependent entirely upon foreign-flag vessels to transport the vast quantities of bulk commodities moving between the United States and Canada. Such a situation is certainly not desirable in normal times; it could be tragic in time of war. S. 3108 has as its objective the prevention of those developments. If enacted, it will offer real encouragement to Great Lakes vessel owners to replace many existing vessels with modern, efficient vessels which have some prospect of competing with foreign vessels. It will also establish a reserve fleet of Great Lakes vessels to meet future emergency needs.

Senator POTTER. Admiral Spencer, I want to thank you for a very comprehensive and thoughtful statement.

How many new bulk cargo vessels were built and put into operation on the Great Lakes since the war?

Mr. SPENCER. Twenty-five, sir. That is, 25 under the American flag, sir. I think there were 13, as I remember, under the Canadian flag.

Senator POTTER. How many vessels were laid up as obsolete during that period of time?

Mr. SPENCER. Just last year, in 1955, there were 15 that were taken out of the trade. I am sorry to say that I can't give you the total number since the war.

Senator POTTER. Of course, this new construction since the war, of 25 vessels, probably was done before the knowledge that the St. Lawrence seaway was coming into being.

Mr. SPENCER. That is true, and it was also under the impetus of the Korean difficulty which created a demand for ore. Because the fleet was already down somewhat, they had to build new ships to take care of the demand at that time.

Senator POTTER. I know that Mr. Sanford will testify on the shipbuilding industry. But from your knowledge you recognize that the value of maintaining an active shipbuilding industry on the Great Lakes for defense purposes. They were greatly needed during World War II.

Mr. SPENCER. And they will be more needed in any future emergency because the Great Lakes will then be able to build ships which can get out into the ocean, combat vessels or any other kind.

Senator POTTER. What is the condition of our Great Lakes shipbuilding industry at the present time?

Mr. SPENCER. There are no new orders for bulk ships in any Great Lakes yard. So far as I know they are subsisting mostly on regular repair and some slight reconstruction work. There are no big new jobs.

Senator POTTER. You heard the testimony of Mr. Ford, from the Department of Commerce. He readily admitted that there was a need for some consent for construction of new ships, bulk cargo ships in the Great Lakes. But they had no recommendation to present to the committee.

I assume that the Lake Carriers Association or others interested in this program in the past have consulted with the Maritime Board as to the possibility or having them increase their allowance under section 510. Have there been discussions on that line?

Mr. SPENCER. Yes, sir. We have had informal discussions with them. So far as I know, no vessel operator has submitted a definite request for an allowance.

Senator POTTER. They indicated to you that the best allowance they could make was the scrap value of the vessel.

Mr. SPENCER. Yes, sir. That is the best that they have offered so far.

Senator POTTER. Which certainly would be no incentive for construction of the ships.

Mr. SPENCER. No. sir. Even though the price of scrap went up last week, it would still not be an incentive.

Senator POTTER. There is no need of even discussing a program unless it is going to work. Unless this Congress can adopt legislation which will act as an incentive for the construction of ships, there is no need of trying to put on window dressing with nothing behind the windows.

Mr. SPENCER. That's right, sir.

Senator POTTER. There has to be a program which will serve as an incentive so that the people will turn in their obsolete vessels and build these ships. I note from your statement that you agree that unless something is done quickly, certainly by the time the St. Lawrence seaway is completed, we can be pushed out of the Canadian-American trade very easily.

Mr. SPENCER. As I am sure Mr. Sanford will point out, you can't build new ships overnight. It takes a long time. Even if we started this year to build ships we would be getting the first of them just about the time the St. Lawrence seaway opened.

Senator POTTER. Mr. Bourbon?

Mr. BOURBON. Has there been any discussion with the Maritime as to the possibility of a program which would give recognition to the fact that Great Lakes vessels that ply only on the Great Lakes do have an inter-governmental, let's say, or international scope that they did not have at one time? Has there been any suggestion that the law be amended to give recognition to the fact that the ships have to go to Canada and have to come back to the United States and sometimes they are in domestic trade? After all, the law exempted them from international trade in the first place. They could give them certificates now, if a proper program were devised.

Mr. SPENCER. I hesitate to give you an exact Yes to that. As I mentioned to the Senator, we have had some discussions with them on an informal basis. We have tried to point out the difficulties in our trade and the domestic trade on the coast, for example, and we asked them what could be done.

They had no program other than under the existing law we could probably get scrap value for any vessels we wanted to turn in. Other than that, we have not been able to come to any agreement at all.

Mr. BOURBON. Does your total of 2,500 new vessels, include the small number, maybe 5 or 6, that were lengthened and put into service on the Great Lakes?

Mr. SPENCER. It includes those that were brought up from the coast; yes, sir, that were bought on the coast, brought up and reconstructed so as to make Great Lakes vessels.

Like the *Joseph H. Thompson*, for instance. That was a salt water vessel.

Mr. BOURBON. There was one in the Maryland drydocks?

Mr. SPENCER. Yes, sir.

Mr. BOURBON. Has any consideration been given to getting 20 or 25 vessels from the reserve fleet and getting them to the Great Lakes and lengthening them up there?

Mr. SPENCER. Those vessels were good for an emergency but they are not good Great Lakes vessels. Even after you lengthen them they can't carry the cargo as efficiently as a vessel that is built particularly for the trade. During the Korean difficulty when we needed vessels so badly it was a worthwhile thing to get those because we had to have something. But when it comes into the normal operations or even future emergencies, a vessel built particularly for that trade is far superior in every way to these rebuilt salt water ships.

Mr. BOURBON. The rebuilt ones did have a cost appeal, didn't they?

Mr. SPENCER. Oh, yes. Indeed they did.

Mr. BOURBON. That is all the questions I have.

Senator POTTER. Admiral, I thank for your statement and hope that as a result of these hearings something worthy can be forthcoming.

Mr. SPENCER. We thank you very much for the consideration that you have shown us here today, and prior to today, too.

Senator POTTER. Thank you.

Mr. SANFORD. It is good to see you again.

STATEMENT OF L. R. SANFORD, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. SANFORD. It is nice to be here again, Senator.

Senator POTTER. I served on the Merchant Marine Committee in the House. I well recall seeking your advice on many matters concerning the shipbuilding industry. I know of no greater authority in the country than yourself.

Mr. SANFORD. Thank you.

Senator POTTER. We are delighted to have you here.

Mr. SANFORD. My name is L. R. Sanford. I am president of the Shipbuilders Council of America, a trade association of the shipbuilding and ship repairing industry of the United States. The council represents nearly all the major private shipbuilding and ship repairing organizations in the country, including those on the Great Lakes. It is on behalf of the Great Lakes shipbuilders that I appear here today, as an ore carrier replacement program on the Great Lakes is of vital concern to them, for reasons which I shall later set forth.

I might mention in passing that I have been mildly censured by my good friend, Admiral Spencer, for confining my remarks to an ore carrier replacement program to the exclusion of other bulk commodities such as grain and limestone. And I have. But I feel that if we solve the ore carrier program the others will readily follow in its wake.

There are five shipbuilding companies located on the Great Lakes with facilities capable of constructing modern ore carriers.

These companies are as follows: The American Shipbuilding Co., Cleveland, Ohio; The Christy Corp., Sturgeon Bay, Wis.; Defoe Shipbuilding Co., Bay City, Mich.; Great Lakes Engineering Works, River Rouge, Mich.; Manitowoc Shipbuilding, Inc., Manitowoc, Wis.

These five companies operate a total of nine shipyards; the American Shipbuilding Co.—four—located at Buffalo in New York State; Lorain and Toledo, Ohio; and Chicago, Ill.; the Great Lakes Engineering Works—two—located at River Rouge, Mich. and Ashtabula, Ohio; and the Christy Corp., the Defoe Co. and Manitowoc Shipbuilding, Inc.,—one each at their respective locations.

There are a total of 14 building berths in these yards available for the construction of moderate-to-large size ore carriers. At the present time, no ore carriers are under construction in any lake shipyard. All yards have supporting facilities in the way of ships, tools, equipment and technical staffs.

There are present here today representaatives of several of the above companies. They are available to answer any questions which members of the committee may wish to ask them individually.

I should like with your permission to introduce them to you here.

Senator POTTER. I will be delighted to have you do so.

Mr. SANFORD. Mr. Williams, vice president of American Shipbuilding Co., in charge of engineering; Mr. Haskill, president of the Great Lakes Engineering Works; Mr. Ackerman, president of the American Shipbuilding Co.; Mr. Lineau, representing the Christy Corp.; and Mr. Hoen, who also represents the American Shipbuilding Co.

Senator POTTER. Gentlemen, if you care to come up with Mr. Sanford you may do so. If you have anything you would like to add to Mr. Sanford's statement, feel free at any time to break in. We would like to have your comments. We are delighted to have you here.

Mr. SANFORD. In order to understand and evaluate correctly the necessity for an ore carrier replacement program on the Great Lakes, a background in the form of a recapitulation of the world iron ore situation, as it affects the United States, is necessary. Hence I shall digress from the shipbuilders for the present and return to them later. I might say in view of the previous testimony and the testimony that Mr. Pardee will give you later, that perhaps I can brief this without going into too much detail and save a little time for the committee.

Senator POTTER. You may do that.

Mr. SANFORD. Until relatively recent years, the steel industry in the United States has depended for its basic ore requirements primarily on the ore ranges of northern Wisconsin, the Upper Peninsula of Michigan and eastern Minnesota. The best known and the largest is the Mesabi Range in Minnesota, but there are a number of others.

Practically all of this ore moves by water out of Duluth, Minn.; Superior, Wis., and other Lake Superior Wisconsin ports, and Escanaba, Mich., to lower lake ports on Lake Michigan and Lake Erie. In the case of the Lake Michigan ports delivery by water is made directly to the mills, whereas of the ore proceeding to Lake Erie ports only part is consumed at lakeside and the balance transshipped to the mills by rail. I took a map that was included in the annual report of the St. Lawrence Seaway Development Corporation and had it blown up. I

have it over there. I thought it might help you to orient this and see just where these various places are.

That map is intended for the St. Lawrence seaway. It shows very clearly the relative locations of these various places. The present iron ore comes mostly from the Lake Superior region, Duluth-Superior, and many of the ports along the south shore of Lake Superior, also including Escanaba and Lake Michigan.

It all moves down to ore ports on Lake Michigan and Lake Erie. I think it will be evident from what I have in here and from the testimony of others that the domestic iron ore supply is gradually decreasing and at the same time that it is decreasing the iron ore coming from Canada is increasing. And it is coming from two principal locations: The Steep Rock iron ore reserves, up in western Ontario, which ship out of Port Arthur on the north shore of Lake Superior, from whence it can come down the lakes exactly as the ore moving out of the Duluth-Superior area does. In addition to that is the Labrador-Quebec area which is north of the Gulf of St. Lawrence which moves by rail down to Seven Islands, which you can see there just on the north shore of the gulf, west of Anacostia Island, and that at the present time moves as far as Montreal for transshipment there, but with the opening of the seaway can continue on and move into Lake Erie ports.

And it is those two principal sources of Canadian ore which I think we are most concerned with at the present time, and that I think I will develop as I go along.

I have gone into some detail of how the various sources of ore will hold up.

There has been and is some ore imported from Sweden, Chile, Cuba, Mexico and Canada, but in relatively small quantities, with the possible exception of the Chilean ore which is delivered directly to mills located on the coast at Baltimore.

In recent years, however, there has been a change because of the development of extensive iron ore reserves in Venezuela, Brazil, Liberia, Labrador and Ontario. As these reserves have developed, the volume of ore imported into the United States has steadily grown.

It undoubtedly is both fortunate and opportune that new world sources of iron ore have been discovered and developed to supplement domestic production, as the potentialities in the Minnesota, Michigan and Wisconsin areas for open pit operation, particularly in the Mesabi range, are reported to be declining, and according to a recent authoritative forecast by Ogleby, Norton & Co. (See Skillings' Mining Review, Oct. 15, 1955), the 1957 anticipated production rate of some 46 million gross tons from these sources will dwindle to 12 million tons by 1982.

To a very substantial extent that decline will be compensated for by taconite concentrates from low grade ore, of which there appear to be unlimited reserves. About 5 million tons of such concentrates are estimated for 1957 and 42 million by 1982.

The open pit gravity concentrates will taper off from 21 million in 1957 to 3 million tons by 1967, but the underground ore in the Minnesota, Michigan and Wisconsin areas will hold up fairly well, declining only from 14 million tons in 1957 to 10 million tons by 1978.

Hence it is estimated that the total ore of all kinds from the Lake

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Superior District will diminish from 86 million gross tons in 1957 to about 67 million by 1982.

It might be noted here that production of iron ore in the northeastern, southern and western districts of the United States will remain approximately constant at about 17 million tons annually up to 1984. This production does not affect the Great Lakes ore situation, but does affect overall potentialities for domestic iron ore.

As contrasted with decreasing domestic ore production, continued expansion of steel mill capacity, and continually increasing consumption, will call for steadily increasing amounts of ore for capacity blast furnace operation. It has been pointed out by Benjamin F. Fairless, the chairman of the board of the U. S. Steel Corp., that within the next 20 years there will be a 45 million increase in population.

Assuming the same per capita use of steel products, this population increase alone will require a heavy increase in steel production and thus in the demand for ore. Furthermore, past experience indicates that the per capita use of steel will continue to increase. And, in the event of national emergency or war, the requirements for both steel and ore will further pyramid.

It seems unlikely that Venezuelan and Liberian ores will find their way by water to the Great Lakes area, although even that is possible with the opening of the St. Lawrence seaway. The main supplementary sources of supply for the Great Lakes ore movement, exclusive of domestic sources, necessarily will be Canadian.

Those will be the Steep Rock and Labrador-Quebec areas.

There are presently two major ore fields in Canada, one located in the Labrador-New Quebec area and one in the Steep Rock area in western Ontario. There are some others, the most important of which are the Wabana area in Newfoundland, the production of which is consumed partly in Sydney, Nova Scotia, and the balance exported to the United Kingdom and Western Germany; and the Michipicoten area, east of Lake Superior, part of the production of which is consumed by the Algoma Steel Co. at Sault Ste. Marie, Ontario and the balance exported to the United States.

It is interesting to note that most of Ontario's output of iron ore is exported to the United States and, in turn, most of the ore used in Ontario blast furnaces is imported from the United States, so that a cross trade exists. On the other hand, most of the ore from Labrador-New Quebec is exported to the United States.

It seems reasonable to presume that, in the future, most of the ore required at Lake Erie and Lake Michigan ore discharging ports to supplement declining domestic production in the Lake Superior area will come from the two principal sources previously mentioned, viz., the Steep Rock area in Ontario and the Labrador-New Quebec area.

Steep Rock ore moves via the Canadian National Railway to Port Arthur, Ontario on the north shore of Lake Superior, and Labrador-New Quebec ore moves by rail to Seven Islands, Quebec on the north shore of the Gulf of St. Lawrence.

Ore loaded at Port Arthur can move directly to Lake Michigan and Lake Erie ore ports.

However, ore moving out of Seven Islands presently can only move inland as far as Montreal for transshipment there, usually by barge, but, of course can move directly to Atlantic coast ports.

With the completion of the St. Lawrence seaway, ore from Seven Islands will be able to move directly to Lake Erie ports via the seaway, the vessel size being limited only by the size of the locks en route. Locks are 800 feet long by 80 feet wide by 30 feet deep, whereas channel depths are 27 feet, resulting in a maximum draft of about 25½ feet.

Senator POTTER. I have heard that on the drafting boards, and I think probably also right in the construction phase in foreign yards, ships are now being readied specifically for that trade.

Mr. SANFORD. I understand that that is true.

Both movements are foreign trade movements as far as the United States is concerned. Until the seaway is in use, only United States and Canadian flag ore carriers can participate in the Port Arthur trade, but ore carriers of any flag can load out of Seven Island for United States Atlantic Coast ports.

Foreign flag vessels, Canadian or any other flag, cannot participate in the domestic trade in the United States, as it is a protected trade for which foreign flag vessels are not eligible. There is no restriction in Canada which would prohibit British and British Commonwealth vessels from engaging in the Canadian domestic trade. Efforts have also been made to limit by treaty the cross trades between United States and Canadian lake ports to United States and Canadian flag vessels, but with little prospect of success.

It appears, at present at least, that the St. Lawrence Seaway will open the ore trade between Canadian and United States ports, or vice versa, to ore carriers of any flag and that the coastlines along the Great Lakes will become in fact extensions of the seacoast.

In view of the lower cost of building ships abroad and the lower cost of operating ships under foreign flags, it is evident that United States flag ore carriers on the Great Lakes will be faced with vigorous low-cost foreign-flag competition in the transportation of ore from Canadian to United States ports, or vice versa, with the possibility, perhaps even probability, that substantially all of the production of ore from Canadian sources required to maintain an overall production reasonably commensurate with anticipated consumption in those domestic steel mills which rely upon lake-transported ore for operation may be transported in foreign-flag ore carriers.

Such a situation well might operate eventually to reduce the level of American-flag ore-carrier capacity to that required only for the domestic ore movement, which, as heretofore indicated, can be expected to decrease year by year.

It should be self-evident that, in the event of national emergency or war, the vital industrial capacity of the United States, based as it is upon steel, will depend on the ability of the United States lake ore carrier fleet to transport ore to the lower lakes from both domestic and Canadian sources in sufficient volume to meet the requirements imposed under such conditions.

That volume undoubtedly will be far in excess of the volume which would have been expected at that particular time under the normal acceleration of steel production. If such an emergency does arise, it is most likely that foreign-flag ore carriers operating on the Great Lakes or into the Great Lakes, from the Seven Islands source or others, either will be ordered home for service of their nationals elsewhere, or, if on the high seas at the time, be prevented from returning to the Great Lakes, either by order, submarine blockade or sabotage.

In any event, foreign-flag ore carriers, other than Canadian, operating on the Great Lakes during national emergency or war with alien crews would constitute a hazard which could not be tolerated, regardless of their nationality.

It would be comparatively easy for a single act of sabotage to completely block the St. Mary's River, the locks at Saulte Ste. Marie, the Welland Canal and/or other narrow congested waterways.

Two world wars have demonstrated beyond a shadow of a doubt that reliance upon foreign-flag shipping for vital water transportation in time of war is, at the very best, hazardous and undependable, regardless of the nationality of the carrier or the present, or future friendliness, or otherwise, of the particular nation under whose flag the carrier sails.

Senator POTTER. I believe at the present time the regulations of the Soo still prohibit foreign vessels from going through the locks.

Mr. SANFORD. I know during the war they were very closely guarded and extreme precautions were taken to make sure that nothing untoward could happen at that time. But if we had foreign-flag ore carriers with alien crews operating through there it would make that provision extremely difficult, most difficult to prevent some accident, so-called, from happening.

With the opening of the St. Lawrence Seaway, there will be foreign-flag competition for the transportation of ore on the Great Lakes or into the Great Lakes, not in the domestic trade of course, but in the trade from Canada or possibly other sources.

This competition, even though it cannot participate in the domestic ore movement, can be of such serious moment and at such extremely low costs per ton-mile, as a result of low capital and operating costs, as to seriously threaten the domestic ore movement, and even cause it to decline more rapidly than it would have solely as a result of a diminishing domestic supply without foreign-flag competition in the transportation of Canadian ores. I think Admiral Spencer touched on that same point.

So we must be prepared to accept the premise that foreign-flag competition on or into the Great Lakes will affect domestic ore transportation by indirect competition, even though it cannot directly participate in that transportation.

Furthermore, with the St. Lawrence Seaway open, it is entirely probable that foreign-flag ore carriers which engage in the Great Lakes trade will be diverted by their owners to other seagoing ore trades during the closed season on the Great Lakes instead of being laid up for the winter months, as is now customary for United States and Canadian ore carriers, thus enabling, possibly—I amend that a little bit because it is a speculative proposition—a greater annual return per vessel than if only operated on the Great Lakes during the open season.

Combination ore and oil carriers could readily be diverted to the seagoing oil trade during the closed season on the Great Lakes. Such year-round operation would constitute not only another economic advantage for the foreign-flag carrier in competition with United States-flag lake ore carriers, but would further reduce the closed season work available to lake shipyards which now are relying on such work to keep them in operation.

Operation of foreign-flag ore carriers, or combination ore and oil carriers, in seagoing trades during the closed season presupposes, of course, that such carriers are designed and constructed as seagoing carriers under applicable Classification Society rules.

As seagoing ore carriers, or combination ore and oil carriers, they perhaps would not be as suitable and as efficient for lake ore service as ore carriers designed and constructed for lake service only, under Classification Society rules applicable to that service, but nevertheless they would be eligible for both lake and seagoing service.

On the other hand—and this has come up before—lake ore carriers cannot go to sea. Conditions on the lakes are different from those at sea and an ore carrier design for lake services has been evolved over the years. The classification societies have developed rules for that type of service, which differ from those for seagoing service. Lake ore vessel characteristics differ from seagoing vessels of that type. They are long and of relatively narrow beam for their length, with relatively low depths and drafts due to limiting depths of water in some of the channels encountered.

The scantlings are lighter. The limit of service for lake type ore carriers eastward is the eastern end of Anticosti Island, which you will notice on the chart there is in the northern part of the Gulf of St. Lawrence, Seven Islands being to the westward of Anticosti Island. That presupposes that the particular ore carriers engaged in that trade are equipped for salt-water operation which many of the present lake carriers are not.

It is possible for any owner to have an ore carrier built abroad, to lakes scantlings and design, and deliver her under a special dispensation and certain temporary alterations to the Great Lakes. That is, to get her across the ocean. Thereafter, of course, she would not be suitable or eligible for seagoing service and would have to be laid up during the closed season. Furthermore, even if United States-owned, she could not be operated in the domestic trade, but only in foreign trade, because of having been built abroad. That is where the prohibition operates.

She would undoubtedly be more efficient for lakes service than one of seagoing design, but would have a limited seasonal service compared with the year-round service of a similar ship designed and built for seagoing service, which would be most efficient in that service. The selection of a design resolves itself down to a question of economics for the owner to analyze and solve.

On the other hand, no statutory bar exists to prevent an American owner from constructing a United States-flag ship in a domestic shipyard, suitable for seagoing service, with the intent to utilize her on the lakes in the domestic trade during the open season, or even in the Canadian trade in competition with foreign-flag ore carriers, and at sea during the closed season.

However, there is an economic bar. The same economic factors which are compelling United States owners to build ore carriers abroad for seagoing service and operate them under foreign flags, which was discussed here in this same committee on March 14 of this year, would apply, and would make it impractical to operate successfully in such trade under the American flag.

So there would be no economic justification for sacrificing the efficiency of a lake design, limited to 7 or 8 months' lakes service for a lesser lakes efficiency but greater seagoing efficiency, thus providing an all-year-round service, if the seagoing service during the closed season proved unprofitable because of foreign-flag competition, which it appears very likely it would prove.

Having discussed the world ore situation and having made some references to ore-carrier design for specific trades, let us now take a look at the composition of the present lake ore-carrier fleet. The fleet was discussed by the Deputy Maritime Administrator, Adm. Walter C. Ford, at the hearing on March 14, and undoubtedly will be discussed today—and has been discussed by Admiral Spencer, representing the Lake Carriers Association, but some recapitulation may be in order here.

The ore fleet operating on the Great Lakes at the present time is predominantly a domestic fleet. Three years ago, in 1953, Mr. E. B. Williams, vice president of the American Ship Building Co., who is here today, made a careful analysis of the Great Lakes fleet of ore carriers and tabulated the vessels included in that fleet by age brackets.

Of the 286 ore carriers at that time, 48 were at least 50 years old and, even though small, represented 10 percent of the annual capacity of the fleet.

Of the same total of 286, 112 were between 45 and 50 years old. Over two-thirds of the fleet was more than 40 years old and virtually obsolete because these vessels were too old and too small to compete with modern ore carriers. They could not show a profit individually, except in some special trade. Yet they were depended upon to transport over half of the annual movement of iron ore.

This analysis was brought up to date in September of last year (1955). Twenty-three of the vessels in the 1953 fleet had been eliminated, most of them scrapped. The remaining vessels, of course, were 2 years older.

I should like to supplement that by saying that it has been brought up to date further since I prepared this, to April of this year. I think that figure of 23, that has been eliminated, has now gone up to 30, instead of 23.

The more recent additions to the ore-carrier fleet are vessels of from 18,000 to 20,000 tons capacity. These large vessels are the most economical, both on a construction cost per ton basis as well as on an operating basis. Nevertheless, there are discharging berths up crooked channels along the lower lakes which the large vessels cannot reach, so that it is inevitable that some intermediate-size replacements be included in any sound replacement program.

Mr. Williams' 1953 tabulation showed a potential annual capacity of approximately 110 million gross tons. A normal figure for that capacity would be about 90 million tons because of other factors, including the grain and coal trades.

He set up an estimated 1963 fleet, deleting all vessels aged 50 years or more, but retaining 35 of the larger 40- to 50-year vessels. All vessels 0 to 40 years of age in 1953 were retained and moved up 10 years, and 18 new 20,000-ton vessels were added. This resulted in a total of 147 vessels with an annual potential capacity of nearly 80

million tons, but probably not more than 75 million normal capacity.

There has been only one new vessel added to the fleet since the 1953 estimate, the *George M. Humphrey*, delivered in October 1954. There have been no orders placed for any new ore carriers on the Great Lakes for the past several years. This is 1956, and 1963 is not far away. An order placed now could not result in a vessel ready for operation before the 1958 season. And that is a most optimistic estimate at that.

Senator POTTER. That would be over 2 years.

Mr. SANFORD. I think perhaps the shipbuilders would be able to answer that question better than I. I think perhaps we might consider that the average construction time for a lake ore carrier would be in the order of a year and one-half or something like that.

So, of the 18 new vessels included in the 1963 estimate, only 1 has been constructed to the end of maintaining even a 75-million-ton capacity, much less than the present capacity. The other 17 must be ordered soon to keep up even with that low estimate, at the rate of at least 3 per year for 6 years.

And if we are going to continue to be able to transport all the ore, in whatever form available, from domestic sources and even a substantial part of that from Canadian sources, we will have to construct new tonnage at an even faster rate of at least 5 to 6 new vessels per year.

If we do not, there certainly will be presented to foreign-flag operators of ore-carrier tonnage a marvelous opportunity, nay, even an invitation, to move into the Port Arthur and Seven Islands trades to lower lake ports as soon as the seaway opens, and that opening is not too far away. It is scheduled for 1959. We should be planning now to stem the tide of a foreign-flag, ore-carrier invasion of the Great Lakes. If we do not, we are jeopardizing the national security in that we will not have the minimum tonnage of ore-carrier capacity on the Great Lakes, or even elsewhere, to meet the demands of the steel mills entailed in a greatly expanded war-production program, particularly when ore from world sources other than Canada, the transport of which would be subject to great risk, even if tonnage were available to move it under such conditions, of which there is some doubt, might be completely stopped or at least seriously curtailed.

It would seem that anyone who has given this subject any appreciable study cannot fail to realize the seriousness of the situation and the absolute necessity for the immediate initiation of an ore-carrier replacement program on the Great Lakes.

If that conclusion then is so self-evident, why is it that the owners and operators of ore-carrier fleets on the Great Lakes have not already initiated a comprehensive replacement program by placing orders for new vessels to fill the many vacant berths in the Great Lakes shipyards, not one of which is presently occupied with an ore carrier under construction? That question that I have posed there, I think, has been answered very largely by Admiral Spencer. What follows are my own conjectures as to what might be the reason.

It seems reasonable to suspect that the reason lies in the realm of economics and finance. New ships today are costly, very costly as compared with the costs of the ships to be replaced. And any market for the old ships other than scrapping or an occasional sale as a barge is virtually nonexistent. Hence an adequate replacement program

designed to upgrade the present ore-carrier fleet to a point where there is sufficient modern tonnage to meet all foreseeable requirements involves a very heavy capital investment.

There is naturally some hesitance to invest too heavily in new ships at a time when the only ore cargo of which such ships are assured is the domestic trade out of the Lake Superior area which, as already pointed out, is expected to decline steadily. There is no assurance that even new United States-flag ships can hold their own in the Canadian ore trade, against the low-cost competition of foreign-flag ships.

Although the importation of Canadian ore has increased in the past few years, the proportion of that trade transported in United States flag vessels has decreased. This indicates that even now, before any other foreign-flag ore carriers have access to the Lakes, United States flag ships are having great difficulty in competing with Canadian-flag vessels.

Canadian costs are substantially lower than United States costs. Ships of other foreign flags operate at even lower cost than do the Canadian ships. If we cannot hold our own at present against Canadian ships in the transportation of iron ore on the Great Lakes, what chance will we have when the Seaway is completed and any and all foreign-flag vessels have access to that trade?

It is because of this adverse competitive situation, which already exists, and which will be greatly accentuated when the St. Lawrence Seaway is opened, that Lake owners and operators are bound to feel that some type of financial assistance should be made available to enable them to undertake an ore carrier replacement program.

While there are a number of statutory Government aids applicable to domestic shipping, the ones which can be relied upon to stimulate new construction of ore carriers at the present time are probably limited to:

1. Trade-in of old ore carriers
2. Accelerated tax amortization
3. Mortgage loan insurance.

Mortgage aid is not available, although authorized by statute, because of present administration policy to restrict all financing of new ship construction to private financing.

Mortgage loan insurance is intended to assist in such private financing. In my judgment, accelerated tax amortization, if properly presented and justified could be obtained, even though in general such amortization is opposed by the Secretary of the Treasury.

Senator POTTER. We just heard testimony about the effect that has had on the Canadian shipbuilding industry. I have been having my differences with the Maritime Board on the policy of sticking to just private financing when private financing is not available.

Mr. SANFORD. I think you have a very good point there, Senator.

Senator POTTER. I agree with the policy.

Mr. SANFORD. It is a good policy as long as it works.

Senator POTTER. But if it doesn't work, that is not building ships.

Mr. SANFORD. That is correct.

It appears to be the position of shipowners and operators on the Great Lakes that the trade-in of old ore carriers is the real key to the solution of the construction cost of new vessels. It is to that point that S. 3108 is directed.

Under the trade-in provisions of section 510 (d) of the Merchant Marine Act of 1936, the allowance for an obsolete vessel is based upon consideration of (1) the scrap value, (2) the depreciated value based upon a 20-year life, and (3) the market value in world trade or the foreign or domestic trade of the United States. As a credit to stimulate new construction, none of these bases for trade-in values are adequate in respect to obsolete Lake ore carriers. The scrap value certainly is not adequate and the depreciated value of a vessel 40 to 60 years old is negligible. There can hardly be an appreciable market value for an ore carrier confined to the Great Lakes, as that is the very trade in which we are striving to replace the obsolete vessel in question with new tonnage.

Hence, S. 3108 proposes, as the credit allowance for a traded-in obsolete ore carrier, the difference between the cost of constructing the new replacement vessel in a United State shipyard and the cost of constructing such new vessel in the lowest cost foreign yard where vessels have been built or are likely to be built. In consideration of allowing such a credit on the new vessel, the United States acquires the traded-in vessel or vessels which, if still serviceable, are retained in an inactive status to form a national defense reserve fleet of Great Lakes vessels. Such a national defense reserve fleet of Great Lakes ore carriers, in the event of national emergency or war, would be of paramount importance in providing the capacity potential for transporting down the Great Lakes the ore required under such conditions, particularly if there should be, as is very likely under those conditions, a flight of foreign flag ore carrier tonnage from the Great Lakes for any one or all of a number of reasons.

Ore carriers constructed in the United States exclusively for foreign trade are already eligible by statute for construction differential subsidies. While it has been the general policy of the Maritime Administration to grant construction subsides only to common carriers and not to industrial carriers, that policy is purely administrative and could be changed. In fact, the Secretary of Commerce has already indicated that construction differential subsidy aid could be made available to United States flag bulk cargo vessels in foreign trade.

S. 3108 proposes to make the equivalent of such aid applicable to bulk ore carriers engaged in trade on the Great Lakes in consideration of the acquisition of the older vessels to form the nucleus of a reserve ore fleet for use in emergency, in the interest of national security.

It is unlikely that any Great Lakes vessel owner or operator would be willing to construct new tonnage under a stipulation that it be limited either to the domestic trade on the one hand or foreign trade on the other hand. He would want the option of utilizing the vessel to the best advantage as circumstances might indicate. S. 3108 recognizes this by providing that nothing in the proposed new subsection shall be construed as restricting the trade in which such new vessel may be used.

There is another method by which the objective of S. 3108 could be attained. Here I am treading a little on some ground that has already been discussed. You will recall that during World War II, the Maritime Commission undertook the construction of 16 new ore carriers for the Great Lakes trade at the instance of the Office of Production Management. At that time, ironically enough, it was felt

that the completion of these ore carriers would overtonnage the trade after the war and steps were taken for peacetime sterilization of a certain amount of old tonnage.

In consideration of the acquisition of the new tonnage by Great Lakes operators, it was decided to allow as a credit for old vessels traded in the sum of $63.75 per gross ton of ore-carrying capacity, with a provision for the charter back of the old vessels for the duration of the emergency, and a Government loan of not more than 75 percent of the cost, at the rate of 3½ percent per annum, payable in 20 years. At the present time, as a result of Administration policy, Government loans are not available, but accelerated tax amortization and mortgage loan insurance probably could be made available. There is no occasion for any charter back of the old vessels, which will be placed in a reserve fleet for use in the event of national emergency.

The valuation of $63.75 per gross ton of ore-carrying capacity was recognized then as in excess of the normal values of Lake vessels, of comparable age and type—we had some discussion of that earlier this morning—but it was felt that the construction cost of new vessels was likewise excessive. Moreover, the conditions at that time were considered to be such that a market value of $63.75 per gross ton under such conditions could be justified. This reasoning subsequently was approved by the Comptroller General in an opinion dated February 17, 1943.

Today, there exists much the same situation. The new vessels are urgently needed from a national defense point of view. Their cost will be high, considerably more than double that of the vessels ordered by the Maritime Commission in 1941 as construction costs have increased more than 100 percent since that time. Financial help is required to enable their construction. There will be difficulty in establishing a world market price for obsolete Lake ore carriers.

Thus, it seems not only logical but conservative to increase the credit for the trade-in of these vessels at this time to twice that allowed in 1941, which still would be less than the ratio increase in the cost of new vessels. This would result in a credit for the obsolete vessels at this time of $127.50 per gross ton of ore-carrying capacity. If an arbitrary credit allowance of some such figure were authorized, the transaction would be simple; it would provide a substantial credit on the cost of new construction, and it would expedite the program tremendously by avoiding the delays inevitably inherent in the determination of the difference between domestic and foreign costs of vessels of this type.

If it seemed advisable, the program could even be limited, say, to the construction of 20 vessels during a 3- or 4-year period, after which the program and its method could be reexamined in the light of the effect of the opening of the St. Lawrence seaway upon the transportation of ore on and into the Great Lakes. This is just a suggestion as a possible alternate method.

Senator POTTER. Does the Maritime Board have authority to do that at the present time without legislation?

Mr. SANFORD. I don't believe they do. I don't know that I am in a position to say that definitely. I would rather have the Maritime Board themselves answer the question.

Senator POTTER. Mr. Johnson, have you explored that possibility?

Mr. JOHNSON. Senator, I think that the basic authority does exist.

Senator POTTER. It does exist? Do you think that that stimulus would bring about the revitalization of the shipbuilding industry?

Mr. SANFORD. I am reasonably confident that it would, Senator.

Mr. BOURBON. What percentage of the present construction cost would that be, approximately?

Mr. SANFORD. It all depends upon the figures. It might be in the neighborhood of 35 to 40 percent, perhaps. It can be worked out arithmetically. I haven't attempted to do it. It may not be quite as much as the method proposed in S. 3108.

On the other hand, I hold no brief for this particular figure. I am just suggesting a possible method.

As of now, fast action is of the essence. Failure to so act may raise serious problems as to the survival of the lake shipyards in the absence of any new ore carrier construction during the next several years until the opening of the St. Lawrence seaway, and at the same time result in turning over the transportation of ore on or into the Great Lakes to Canadian, or other foreign-flag vessels, because of lack of adequate competition by United States-flag vessels.

There is another angle to this latter possibility. Assuming that the capital investment in ore carriers as between United States and foreign flags can be approximately equalized by S. 3108 or other equivalent means, and the construction of such vessels is undertaken, there still remains the problem of the continued operation of United States ore carriers in foreign trade on or into the Great Lakes in competition with the low-cost operation of foreign-flag ore carriers.

This problem in no way differs from the problem of maintaining United States ore carriers in service for the importation of ore from Venezuela, Liberia and other foreign countries to coast ports which was discussed before this committee on March 14th. Both are vital to the national security to assure that a continued supply of the ore necessary to implement a war production program will be transported in United States-flag vessels. If anything, the lake problem is entitled to preferred consideration because such transportation is less vulnerable to enemy attack and hence the most reliable source of supply.

Now let us go back to the Great Lakes shipyards themselves, on whose behalf I appear here today. It may seem that I have covered a lot of ground before getting back to them, but, in my opinion, the background I have heretofore set forth is necessary to justify a program which will solve the problem of the shipyards.

It is not enough merely to say that the lake shipyards need new construction work in order to survive and that the shipbuilding potential of Great Lakes shipyards is necessary to provide a substantial nucleus for wartime mobilization. Both statements are factual, but it takes more than the mere statement of them to justify a Great Lakes ore carrier replacement program. There are too many other factors involved.

The shipyards on the Great Lakes operate under different conditions than those on the coast. Great Lakes water transportation is seasonal. The open season at very best is from about April 1 to November 30, not over 8 months out of the year, and frequently less, when navigation is open from the head of the Lakes to Lake Erie ports. Practically all repair work, reconstruction, repowering, et cetera, is

performed during the closed winter season. It is of prime importance to keep the vessels operating during the open season to make the maximum number of trips and thus transport the maximum quantity of ore.

Repairs during that time are limited to emergency or casualty repairs. It will thus be evident that, in the absence of new construction, there will be a minimum of activity in the yards during the summertime and a maximum during the winter, resulting in a terrific fluctuation in employment. Employment graphs in the shipyards are indicative of this most undesirable condition.

Such a condition of fluctuating employment with little assurance of permanency tends to drain off the skilled employees to more stable industries. Not only is this so, but the age level of those employees who remain or who come back for the closed winter season is steadily increasing and the time will come when they will be no longer available. Under normal industrial conditions, the attrition due to age and disability is compensated for by the recruiting and training of young men to eventually take the place of the older men. It is self-evident that an industry with a highly fluctuating employment and frequent lay-offs cannot offer much inducement for a young man to train as a skilled mechanic in that industry. Furthermore, many of the trades in shipbuilding and ship repairing are specialized crafts not available in other industry.

The Great Lakes shipyards have made a substantial contribution to the national economy, particularly in the Midwest. In World Wars I and II they made invaluable contributions to the war effort and unquestionably their services will be required again in the event of another national emergency. It is unthinkable that such an industry, so vital to the economy of the Great Lakes, and so indispensable to the basic steel industry, upon which the entire national economy depends because it provides the means of transporting the ore required for steel production, should be permitted to gradually wither away for lack of new construction orders for ore carriers, the need for which is conceded, with only the method of acquisition in question.

It is self-evident that a highly fluctuating employment condition does not lend itself to efficiency or economy of operation. The logical solution lies in a backlog of work extending through both the open and the closed seasons, in other words, on an annual basis. Such a backlog would be provided by new construction work. While it would not entirely eliminate the fluctuations due to seasonal repair work it would decrease the relative size of the peaks and depressions in the employment curve as between the closed and open seasons and would maintain that substantial nucleus of steady employment so necessary to retain skilled craftsmen and provide inducement for young men to enter training to become skilled shipyard craftsmen.

It would improve efficiency and economy of operation, reduce the overhead expense chargeable to each job by expanding the workload, and thus decrease the cost, both of repairs and new construction. It would assure not only permanence of employment for skilled labor but permanence of operation for the shipyard itself, thereby enhancing the national economy and strengthening the mobilization potential of the industry. Only by such an operation can existing facilities be maintained in good operating condition or be adequately replaced when obsolete or worn out.

Any Great Lakes shipbuilder here today can testify as to the violent fluctuation in employment between the open and closed seasons when dependent entirely upon repair or rehabilitation work during the closed season, and as to the necessity, from his point of view, for a more or less stabilized workload in the form of new ship construction to enable the shipyard to operate on an efficient and economic basis and to permit the management to make long-range plans for the maintenance and improvement of facilities, such as are necessary for a permanent and essential industry.

Mr. Chairman and members of the committee, I have endeavored to give you an overall picture of the necessity for an ore carrier replacement program on the Great Lakes, first by analyzing the present and prospective ore situation, both domestic and Canadian; second by outlining the problems of the Lake ore carriers in respect to present and prospective foreign flag competition, and third by indicating the present condition of the Great Lakes shipyards and some of the problems incidental to their survival.

Each one of these general subjects is ultimately and inevitably involved in the opening of the St. Lawrence Seaway to navigation and the effect thereof, but each of them also leads definitely to the conclusion that some action must be taken to stimulate an ore carrier replacement program on the Great Lakes now, before the opening of the St. Lawrence Seaway. The method of stimulating such a program is the real issue here. S. 3108 proposes a method. There may be other methods. I have indicated one. That method which accomplishes the most effective result in the minimum time at minimum expense to the Government is the one which should interest this committee, whatever it may be.

But there is no time to be lost. Action in this session of the Congress is definitely indicated. It will be in the national interest, as well as in the interest of all those concerned.

Senator POTTER. Mr. Sanford, I want to thank you for a very comprehensive statement. I know of no man who is more qualified to testify on this than yourself.

I would like to ask this one question. At the present time, with the lack of any new construction and with the shipyards on the Great Lakes, you state that the work now is done, most of it, during the cold season?

Mr. SANFORD. It is seasonal.

Senator POTTER. With a ship construction program which will carry on during the summer months, that would enable the shipyards to have a pretty well balanced type of employment?

Mr. SANFORD. A fairly stable employment.

Senator POTTER. I know that in talking to some of the shipbuilders that I know in that region about the problem that you mentioned, about keeping their skilled employees, I have been advised that it is a very real problem. Of course if we should ever become engaged in another national emergency we would find as we have in the past that the utilization of skilled people in this vital industry is of tremendous importance. We would lose them to other fields of endeavor. In that area there is great competition for skilled labor and we might lose them for good.

Mr. SANFORD. May I add one thing? I mentioned the fact that Mr. Williams investigated this question of the ore carrier fleet. Back in 1953 he prepared a chart which is rather extensive. It shows every ore carrier on the Great Lakes, its name, when it was built and so forth. These are the various years. Also its present status. There is a world of information on it of all sorts. That was brought up to date in September of last year, and within the last day or two has been brought up to date as of now.

I think it might be well, with your permission, to have it in the committee files as an exhibit. And if there are any questions about the various types of information on it I am sure Mr. Williams will be very happy to explain it to you.

Senator POTTER. That will be made a part of the official files of the committee.

Mr. BOURBON. Would the latest one be available for study?

Mr. SANFORD. This is the very latest.

Mr. WILLIAMS. These blacked-out vessels are the ones which have been deleted from the fleet. These are the 30 which have disappeared for one reason or another from the ore fleet since 1953.

Senator POTTER. Does the height of the column mean anything?

Mr. WILLIAMS. The height of the column designates the vessel's carrying capacity, each inch being 2,000. The figures along here indicate the year in which the vessel was built. You will see that we are confronted with a terriffic problem of block obsolescence; in a period of 3 years about 40 percent of the ships were built. Quite a number of the vessels dropped out and don't show on the chart.

Another thing which was touched on here a few moments ago was the time necessary to build a ship. Fully 2 years are necessary to properly design and build a ship for this service. Bear in mind that these ships are built for 50 to 60 years. Let us by all means not hurry through their design and construction and build them in bunches as we have done in the past. We suffered for it for all that time.

Senator PORRER. It should be a long-range program.

Mr. WILLIAMS. It should be a long-range and orderly building program by which we can get good ships which will last all these years.

Senator POTTER. What is the cost of a ship of the size and type of the *George Humphrey?* What would that cost to construct today?

Mr. WILLIAMS. I will refer that to Mr. Ackerman.

Mr. ACKERMAN. I can't give you the cost. Do you mean in price to the owner?

Senator POTTER. Price to the owner.

Mr. ACKERMAN. Between $7 million and $8 million.

Senator POTTER. I would assume in a prospective shipbuilding program that we would have many of the ships of that size.

Mr. SANFORD. I would assume so.

Mr. WILLIAMS. Another thing which is apparently on this chart, these are the 600-footers, of which so many were built during those few years. Here are the gaps with no shipbuilding activity on the Great Lakes whatever. You can well appreciate what happens when those periods come. Here is a period where 4 ships were built in 2 different yards. Then there was another gap. Then the war program. Those are the maritime ships through there, including 5 that were built just ahead of that program. But here are the 16.

Now another period develops of inactivity. And then finally we get to design a new ship, that being the *Wilford Sykes*, the only new design in 20 years. You can appreciate what has to go into that by way of model experiments and all the other things to turn out a ship which is good for 60 years.

Then in through here we have this recent program, and those ships include the ones which are brought up from the coast. They are identified.

Senator POTTER. Those C–4's that were modified?

Mr. WILLIAMS. C–4's and one Victory. Then you will see one outstanding ship on the end being the only one built since 1953, and that being the *George Humphrey*, and you can see that her tonnage reaches way up here over 23,000. That is her potential capacity only after the channels are deepened. At the present time it is something less than that. Additional copies can be made available if you wish them.

Mr. BOURBON. I have one question, Mr. Sanford. How do construction costs on the Great Lakes compare with the Canadian construction costs?

Mr. SANFORD. I would like one of the shipbuilders to answer that question. How do the construction costs on the Great Lakes compare with Canadian construction costs?

Mr. ACKERMAN. We have been told that there is a variation there from one-third to about 40 percent.

Mr. SANFORD. That has been my general understanding.

Senator POTTER. Mr. Sanford, I have no further questions. You covered everything in your statement that I had in mind.

Mr. SANFORD. I appreciate the opportunity to be here.

Senator POTTER. I am delighted that you are here.

It is now 12:15 and we have Mr. Pardee to be heard.

Would it be convenient for you to testify after lunch?

Mr. PARDEE. At your pleasure, sir.

Senator POTTER. I have another meeting this afternoon. I wonder if we could recess now and reconvene at 1:30. Would that give you enough time?

Mr. PARDEE. Yes, sir.

Senator POTTER. I wish to introduce and make a part of the record a statement from Congressman William E. Minshall in support of this legislation.

Also, I would like to make a part of the record a report by the Comptroller General, a letter from the General Counsel of the Treasury, a letter from the Secretary of Commerce, a letter from the Interstate Commerce Commission, and a set of resolutions by the Great Lakes Harbors Association.

Also, a statement by Congressman Carroll D. Kearns, of Pennsylvania.

(The documents referred to above are as follows:)

REMARKS OF WILLIAM E. MINSHALL, MEMBER OF CONGRESS

Mr. Chairman, I wish to thank you for this privilege of submitting these remarks concerning S. 3108, a bill introduced by Senator Potter which is the subject of your hearings today.

The purpose of S. 3108 is to encourage the construction of modern, up-to-date cargo vessels for use on the Great Lakes. Such encouragement is absolutely vital to meet the normal schedules of present and future peacetime commerce, and more important only because it is a matter of national life or death, such

encouragement is absolutely vital in the interest of national defense at time of war.

The 23d Congressional District which I represent is on Lake Erie. It consists of 44 suburban communities surrounding Cleveland, one of the chief ports on the Great Lakes. Because many 23d District residents derive their income from trade on the lakes, I know at first hand the severity of the problem which the statistical evidence submitted to this committee on behalf of S. 3108 so graphically portrays.

This statistical evidence will show beyond a shadow of a doubt not only the necessity of this legislation, but this evidence provides a striking testimonial to the urgency of congressional action. There are just not enough first-rate American cargo vessels on the Great Lakes to competitively handle constantly expanding American shipping requirements, and the majority of the vessels now in service could well be relics in a maritime museum.

This committee knows far better than I the economic factors underlying the disgraceful status of our interlake merchant fleet. Our immediate concern is to find a solution to the problem we know exists, and that solution in my judgment is contained in S. 3108.

There are six bills similar to S. 3108, one of which I introduced, now pending before the House Committee on the Merchant Marine and Fisheries—evidence in itself of the increased interest shared by the Members of Congress in this pressing problem. I am convinced this legislation has much merit and wide support, and I respectfully urge this committee to approve S. 3108.

STATEMENT OF CONGRESSMAN CARROLL D. KEARNS, 24th DISTRICT, PENNSYLVANIA, CONCERNING S. 3108

As the sponsor of H. R. 9008, a bill similar to that now before this subcommittee, I appreciate the opportunity to present a statement in support of S. 3108.

This legislation is vitally needed to maintain and preserve an adequate fleet of United States flag bulk cargo vessels on the Great Lakes. Once the St. Lawrence seaway is completed, the Great Lakes will be the northern seaboard of the United States. Our people stand to gain untold benefits from direct Great Lakes overseas shipping. It must be remembered, however, that the seaway will also open to the vessels of all nations the international trade between the United States and Canada, which now amounts to nearly 30 million tons annually and is growing from year to year. Because of the decided cost advantage which foreign flag vessels enjoy over United States flag vessels, it is readily apparent that, unless some type of aid is given the American flag Great Lakes operator, he will be driven from his trade entirely.

It has long been the policy of the United States to foster the development and encourage the maintenance of a merchant marine sufficient to carry our domestic waterborne commerce as well as a substantial portion of our foreign commerce. This policy should now be made equally applicable to the Great Lakes. In the event of all-out war, Great Lakes vessels will be vitally needed to move the iron ore and other basic bulk commodities consumed by heavy industry over routes that can be protected against enemy action.

Enactment of S. 3108 would be in the national interest. It is designed to meet the particular problem which has arisen upon the Great Lakes. We must recognize the importance of the Great Lakes shipping industry and the need for maintaining that industry. S. 3108 would also go a long way toward preserving shipbuilding on the Great Lakes and insure employment for Great Lakes seamen for many years to come.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D. C., April 11, 1956.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce,
United States Senate.

DEAR MR. CHAIRMAN: Further reference is made to your letter of February 2, 1956, acknowledged February 3, enclosing copies of S. 3108, 84th Congress, 2d session, entitled "A bill to encourage the construction of modern Great Lakes bulk cargo vessels," and inviting our comments on the proposed measure.

Also enclosed with your letter of February 2, were copies of S. 3113 and S. J. Res. 132, on which we made separate reports dated March 13 and March 1, 1956, respectively.

S. 3108 proposes a method of determining credit allowances for obsolete Great Lakes bulk cargo vessels acquired by the Government which is a significant deviation from the present provisions of sections 507, 510 (d) and 510 (h) of the Merchant Marine Act, 1936, applicable to other vessels. At present, the credit allowance for an obsolete vessel may not exceed its "fair and reasonable value," as determined after consideration of its (1) scrap value, (2) depreciated value based on a 20-year life, and (3) world market value.

In view of the reported ages of the present Great Lakes bulk cargo vessels and inasmuch as the fair and reasonable values of such vessels are not for consideration in establishing the credit allowances proposed in the bill, it is reasonable to assume that the oldest of such vessels will be offered the Government and that their values probably will be little more than scrap values. This also raises the question as to whether any of the obsolete vessels acquired by the Government under this bill in the foreseeable future will be of sufficient value for commercial or military operations to warrant the expense of their further preservation and maintenance in a "national defense reserve fleet of Great Lakes vessels" which would be created for that purpose.

To the extent that the credit allowances computed under the bill exceed the fair and reasonable values of the obsolete vessels traded in, the Government's payment of the difference will constitute a subsidy—a hidden subsidy. The 1936 act was conceived with the sound idea of putting an end to the hidden or disguised subsidies contained in the old ocean mail contracts. Accordingly, we recommend against favorable consideration of this measure and urge that any subsidization of the costs of constructing new Great Lakes vessels or preferential treatment to Great Lakes shipyards which is deemed necessary or desirable by Congress be provided in express terms. However, we offer the following analysis and comments on other provisions of the measure:

One of the requirements for considering a vessel "obsolete" is that it must have been "enrolled and licensed under the laws of the United States for trade on the Great Lakes * * * for a period of at least 10 years." We understand that it is possible for a vessel to have been enrolled and licensed for navigating on the northern frontier waters (including the Great Lakes) for a period of time, to have surrendered such enrollment and license in favor of a coastal license or a registry for foreign trade, and again become enrolled and licensed for the northern frontier waters. If we are correct in assuming that the bill does not contemplate permitting return of any former Great Lakes vessels to enrollment and licensing thereon for the purpose of trade-in, it is suggested that any consideration of the bill include an amendment thereto to require such enrollment and licensing for 10 consecutive years immediately prior to acquisition of the vessel by the Government.

Since the bill provides for the payment by the Government of any national-defense features incorporated in the new vessel, it would appear desirable to require approval by the Secretary of the Navy of the plans and specifications for the proposed vessel, as now provided in section 501 (b) of the 1936 act.

The bill provides that "Nothing in this subsection shall be construed as restricting the trade in which such new vessel may be use." Considering the provision in the bill that a "new vessel" must be one capable of carrying bulk commodities between ports on the Great Lakes, St. Lawrence River "and the Gulf of St. Lawrence as far east as a line drawn north and south through the west end of Anticosti Island," it appears that the subject provision is for the purpose of authorizing the new vessels to carry commodities beyond that area. If so, and inasmuch as trade-in valuations for American operators in coastal and foreign trades are limited to the fair and reasonable values of their traded-in vessels, it would seem desirable to equalize the competitive status of the operators by providing that the Government recover that part of a Great Lakes vessel trade-in allowance which was in excess of its fair and reasonable value when and if the "new vessel" engages in ocean-coastal trade. Such a provision could be made to run with the title to the new vessel and enforced by means of a bond posted for that purpose.

Finally, no provision is made for determining the price to be paid for the new vessel upon acquisition by the Government. The credit allowances contemplated by the bill are not construction-differential subsidies which would give rise to the limitations provided in section 802. Accordingly, it would appear desirable to

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provide that upon acquisition the price to be paid shall exclude any amount for the national-defense features which were paid for by the Government.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

THE GENERAL COUNSEL OF THE TREASURY,
Washington 25, February 15, 1956.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 3108, "To encourage the construction of modern Great Lakes bulk cargo vessels" and S. 3142, "To encourage construction and maintenance of modern Great Lakes bulk cargo vessels in the interest of peacetime commerce and the national defense."

The bills would authorize the Secretary of Commerce to acquire any obsolete vessel engaged in trade on the Great Lakes in exchange for an allowance of credit to be applied upon the purchase price of a new vessel constructed in Great Lakes shipyards for use on the Great Lakes. The allowance of credit could not exceed the difference in the cost of constructing the vessel in a Great Lakes shipyard in the United States and the lowest cost of construction in a foreign shipyard. Obsolete vessels acquired by the Secretary of Commerce would be placed in a national defense reserve fleet of Great Lakes vessels.

The bills would appear to relate to a matter within the purview of the Department of Commerce and not within the special province of this Department. Accordingly, the Department has no recommendation to make as to the general merits of the bills.

Very truly yours,

FRED C. SCRIBNER, Jr.,
General Counsel.

INTERSTATE COMMERCE COMMISSION,
Washington 25, February 8, 1956.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce,
United States Senate, Washington, D. C.

DEAR SENATOR MAGNUSON: I have your letter of February 6 enclosing a copy of S. 3108 introduced by Senator Potter, et al, a bill "To encourage the construction of modern Great Lake bulk cargo vessels".

Your letter is addressed to me as Chairman of the Inter-agency Committee on Port Utilization, and I assume that it is your desire to secure the opinion of the committee. However, under the written understanding governing the functioning of the committee, it concerns itself exclusively with ocean ports. For that reason, I believe the committee would consider the matter not within its jurisdiction.

However, inasmuch as my responsibilities under delegations made to me under the Defense Production Act of 1950, as amended, embrace transportation on the Great Lakes, I should be pleased to express my own views as such delegate. I shall forward them to you after clearance with the Bureau of the Budget.

Very truly yours,

OWEN CLARKE,
Commissioner.

THE SECRETARY OF COMMERCE,
Washington 25, April 30, 1956.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Interstate and Foreign Commerce,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: This letter is in reply to your request of February 2, 1956, for the views of this Department with respect to S. 3108, a bill "To encourage the construction of modern Great Lakes bulk cargo vessels." and to your

request of February 7, 1956, with respect to S. 3142, a bill "To encourage construction and maintenance of modern Great Lakes cargo vessels in the interest of peacetime commerce and the national defense."

The bills would amend section 510 of the Merchant Marine Act, 1936, as amended, by adding a new subsection which would authorize the Secretary of Commerce to accept, as trade-ins, obsolete Great Lakes vessels in return for allowances of credit on new vessels. The allowance provided for in the bills is the difference between the American cost and the estimated foreign cost of building the new vessel. This allowance is similar to the amount of construction-differential subsidy that can be granted under the title V of the Merchant Marine Act, 1936, to aid in the construction of vessels which are to operate in the foreign trade except that the allowance is not limited to 50 percent of the construction cost of the vessel, and the bills make no provision for repayment to the United States of any part of the allowance if the vessel is used in the domestic trade. The bills specifically provide that no trading restrictions shall be placed on the vessel.

Section 510 now authorizes the Secretary of Commerce to accept as trade-ins obsolete vessels, including Great Lakes vessels which are at least 12 years old, in return for an allowance of credit equal to the value of such vessels. To the extent that the bills authorize an allowance in excess of the value of the vessels, it would in effect provide construction-differential subsidy to aid in the construction of vessels that could be operated exclusively in the domestic trade. Such subsidy would be based upon the difference between American and foreign costs, but the resulting new vessel could be operated exclusively in a trade in which there is no foreign competition.

It appears that the principal concern of the sponsors of this legislation centers in the ore-transportation problem. A large fleet of specialized ore carriers has been developed to move iron ore from the Lake Superior area to the lower lakes ports. However, this fleet is composed largely of old ships, many of which are obsolete. Of the 356 Great Lakes bulk-cargo carriers, 302 are over 25 years old and, by 1960, approximately 60 percent of them will be at least 50 years old. But even though this fleet of vessels is so old, no orders for tonnage of a major type have been placed currently with any Great Lakes shipbuilding yard. There is need for a sound, long-range modernization program for the Great Lakes fleet of bulk carriers which are so important in the transportation of such large quantities of iron ore, coal, limestone, and grain.

Imports of iron ore produced in foreign countries are transported by both American-flag and foreign-flag vessels. The United States merchant marine operating in foreign trade includes 11 ore carriers of 256,000 deadweight tons, which were built between 1946 and 1948. Of those 11 vssels, 8 are owned by the Bethlehem Steel Corp., and 3 are owned by the Ore Transport Co. In 1954, these vessels transported the bulk of the iron ore brought into our country by American-flag vessels—all but 335,000 tons.

Of the 13,801,000 tons of iron ore imported by the United States and carried by oceangoing vessels, American-flag vessels carried 4,895,000 tons, or 35.5 percent, and foreign-flag vessels carried 8,906,000, or 64.5 percent. However, the percentage of United States ore imports carried by foreign-flag vessels is bound to increase unless additional bulk-ore carriers are built for United States registry. At present, there are no such vessels under construction for United States registry, while there are 83 bulk carriers of almost 1,800,000 deadweight tons for foreign-flag registry under construction in world shipyards. Of the ore carriers under construction or on order in foreign shipyards, 22 of 676,000 deadweight tons ae being built for the account of American owners who intend to register them in foreign countries.

In view of this situation, the Secretary of Commerce wrote the major ore-importing companies informing them of his concern that such a large proportion of the bulk-ore imports was being transported in foreign-flag vessels. He asked them to explore the possibility of using American-flag bulk-cargo vessels and to indicate their interest in building and operating such vessels. In addition, he informed them that construction-differential subsidy aid could be made available in order to place United States construction costs on a parity with foreign construction costs.

Replies to this letter were received from most of the companies. While some of them indicated that they had no interest in the matter, the remainder stated that the high cost of owning and operaing ships under United States registry constituted a most serious obstacle and that they were compelled to use foreign-flag ships, usually on a charter basis, in order to maintain a competitive posi-

tion. However, there are indications that several of these ore importers would be willing to operate United States-flag bulk-ore vessels which could be operated at costs comparable to those of foreign-flag vessels.

The shipbuilding potential of Great Lakes shipyards will provide a significant wartime mobilization nucleus. At present there are 15 ways on the lakes capable of building vessels of as much as 18,000 to 20,000 deadweight tons. These 15 ways may produce up to 15 ships each year. In addition, shipyards on the Canadian side of the lakes will provide a valuable supply of shipbuilding facilities in time of national emergency.

The Maritime Administration has developed a ship-design program which at present includes seven different vessel types. This program is designed to provide a broad basis for the purpose of establishing the physical characteristics desirable in ships which will comprise the future American merchant marine. It includes the design plans for a dry-cargo bulk vessel which is intended to be not only a carrier of ore, but also of other dry bulk commodities, including bauxite, grain, and coal.

We realize that the development of the St. Lawrence seaway has resulted in increased American interest in the ore trade. We anticipate that the opening of the St. Lawrence seaway will make Labrador ore more competitive with Lake Superior ore, and that foreign-flag ships will undoubtedly seek to capture the Labrador United States movement. We recognize that any new Great Lakes replacement vessels would be largely engaged in domestic traffic within the Great Lakes, although they would probably spend part of their time in a Canadian United States ore and grain movement. Owners will desire to have this flexibility of use to engage partly in foreign commerce of the United States and partly in domestic commerce.

The Department of Commerce study entitled "A Review of the Coastwise and Intercoastal Shipping Trades," published in December 1955, concluded that there is no present need or justification for construction-differential subsidy to aid in the acquisition of vessels to be operated in the coastwise and intercoastal trades. Though this study did not deal specifically with the coastwise trade on the Great Lakes, the conclusion is applicable to such trade.

The Department recommends against favorable consideration of the bills.

The Bureau of the Budget has advised that it would interpose no objection to the submission of this letter to your committee.

Sincerely yours,

SINCLAIR WEEKS,
Secretary of Commerce.

RESOLUTIONS—GREAT LAKES HARBORS ASSOCIATION

In reference to proposed Amendment of Section 510, Merchant Marine Act of 1936, as amended (46 U. S. C. A. § 1160), adding a new subsection (i) thereto

One of the subjects of paramount interest and concern to the several municipalities on the Great Lakes littoral and their respective port authorities is the maintenance and operation of the Great Lakes Bulk Carrier Fleet.

The subject is of equal national concern, for on it depends the carriage of iron ore and limestone to the steel mills that represent 85 percent of the productive capacity of the country, the movement of coal to the Northwest, the movement of grain to railheads and the seaboard, and the movement of petroleum products within the Great Lakes region. These are the basic commodities that form the fundament of our American industry. Each and every economy achieved in transportation costs is directly reflected into lower living costs for every American.

In recent years attention has been focused on the fact that this fleet of nearly 400 vessels, carrying approximately 175 million net tons of bulky commodities per annum, is rapidly becoming obsolete. About 60 percent of the vessels are 45 years of age and older. Private enterprise has been doing an outstanding job in replacing the older vessels with new ships of much greater carrying capacity and higher speed, thereby still further reducing the cost of moving goods on a per ton basis. Approximately $250 million has been expended in this modernization program. We view this accomplishment with pride.

Construction of the St. Lawrence Seaway introduces a new factor into the situation. It wil doubtless increase competition between foreign-flag line ships operating between Canadian and United States ports in carriage of iron ore and grain. It also opens up the possibility of foreign yards building ships for this trade in competition with Great Lakes yards.

Maintenance of a strong and adequate United States-flag fleet in this trade is of paramount importance to the United States, not only in times of peace, but particularly in time of war. It will be remembered that the entire foreign flag fleet operating on the Great Lakes prior to 1939 was first withdrawn and subsequently sunk by enemy action in World War II, a tragic lesson demonstrating the importance of maintaining a United States bulk carrier fleet intact and operative.

In view of these considerations the Executive Committee of the Great Lakes Harbors Association believes that operators of the Great Lakes Bulk Carrier fleet are entitled to a reasonable measure of government cooperation and financial assistance in the form of suitable credits for vessels that have become obsolete, have been taken out of service, and are being replaced by newer and more efficient units as provided in S. 3108.

RESOLVED, THEREFORE, that the Executive Committee, Great Lakes Harbors Association, endorses the proposed amendment to Section 510, Merchant Marine Act, 1936, as amended, in principle (S. 3108) and recommends affirmative action by Congress.

(Signed) CLAUDE VERDUIN,
Secretary.

Adopted this 9th day of April 1956, at Grand Haven, Michigan.

Senator POTTER. We will now recess until 1:30.

(Thereupon, at 12:17 p.m., the subcommittee was recessed, to reconvene at 1:30 p.m., of the same day.)

AFTERNOON SESSION

Senator POTTER. The committee will resume its sitting and Mr. Pardee may come forward.

Mr. Pardee is the president, Lake Superior Iron Ore Association. I am happy to have you here, Mr. Pardee and I am looking forward to hearing your statement.

Mr. PARDEE. Thank you.

STATEMENT OF FRANKLIN G. PARDEE, PRESIDENT OF THE LAKE SUPERIOR IRON ORE ASSOCIATION

Mr. PARDEE. My name is Franklin G. Pardee, and I am president of the Lake Superior Iron Ore Association, an organization supplying statistical information on the movement of iron ore from the Lake Superior region. Prior to my coming with the association, I was State geologist of Michigan, and before that, for over 20 years, I valued the iron and copper mines for tax purposes in Michigan.

Any long-range program such as has been proposed by S. 3108 must necessarily be based on the existence of sufficient reserves of iron ore available for transportation and an expected demand for this ore by the furnaces.

An examination of the reserves of iron ore will show that these reserves are ample for many years in the future. Also, a study of the demands of the furnaces for iron ore from this area, especially during times of emergency, fully support the proposed program.

This discussion on reserves is confined to those ores that will normally be moved on the waters of the Great Lakes and the St. Lawrence Seaway. Ores for the furnaces in the southern and western portions of the United States are not considered. Foreign sources must also be disregarded as most of these ores would not be available in times of emergency.

The authority for the reserve tonnages quoted are the State reports and the Symposium on the Deposits of Iron Ore of the World that was prepared for the 1952 International Geological Congress. The part of the Geological Congress report dealing with the United States was prepared by Mr. Carl E. Dutton of the United States Geological Survey. The Canadian portion was written by Mr. T. L. Tanton of the Geological Survey of Canada. The figures for the United States have been checked with those published by the United States Bureau of Mines in a preprint from Bulletin 556.

I will not read the list of reserves but I will mention that, in Minnesota, there are still 916 million tons of reserves of ore that is recognized by the State. In Michigan, 160 million, the total for the area, including the taconites and jaspers. The new developments that have come in recently amount to 3,821 million tons of ore in that area.

Senator POTTER. How do the taconites and jaspers differ as far as content?

Mr. PARDEE. Taconite ore is a local name in Minnesota. Jaspers is a local name in Michigan. They are one and the same.

Senator POTTER. I have heard each name used and wondered if there was a distinction between the two.

Mr. PARDEE. The only distinction that has grown up recently, as I will explain later, is that the taconites that are being exploited now and are being developed now are what is called magnetic taconites, in which the iron ore is magnetic and can be separated magnetically from the waste.

Senator POTTER. I notice in the figures you have here, you have 916 million tons of ore from Minnesota—then that does not include the taconite?

Mr. PARDEE. No; taconite is separate—1,700 million tons.

The tonnages shown on the table are those reserves that are known and can be counted on for shipment on the Great Lakes. In addition to these tonnages, the engineers and geologists estimate possible ore that may be found in the future or may be made into usable furnace ore by some new process.

The report on the iron ore reserves of the United States in the Symposium on the Iron Ores of the World, published by the International Geological Congress, in 1952, and also in Bulletin 556 of the United States Bureau of Mines carries some large tonnages of possible iron ore.

This possible ore is that ore which cannot be proven definitely at the time the estimate is made, but the geological evidence for its existence is sufficient to justify this possible ore being considered as potential reserves. Many such estimates made by competent engineers and geologists in the past have proven to be correct, and for that reason this possible ore is mentioned here.

Without going into details, the reports quoted show more than a billion tons of possible ore in addition to the tonnages shown in the table for the Lake Superior region in the United States. In the Steep Rock and Michipicoten areas, both in Canada, the tonnage of possible ores is reported at over 300 million tons additional.

For long-range planning therefore, the potential reserves of iron ore, as well as the known reserves, should be considered; and therefore, the tonnages shown in the table should be increased by 1.3 billion tons.

This means that there are over 5 billion tons of ore available for the boats from the upper lake ports.

The taconite ores require special mention, as they are a recent development and illustrate how changes in technical processes increase reserves.

Studies have been going on for over 30 years to find some commercial process that would permit the mining of the very hard low-grade taconite ores and the release of the finely divided iron in the rock.

Research has developed new processes and machines that now make it possible to mine and crush the ore fine enough to release the iron from the impurities and then put the iron in such shape it can be used in the furnaces.

The taconite estimate quoted at 1.7 billion tons includes only the magnetic taconites. These magnetic taconites are those in which the iron ore is separated from the waste by magnetic means. No published estimates are available for the nonmagnetic taconites in Minnesota, and the tonnage of this material is undoubtedly very large.

I imagine the tonnages will compare with the tonnages of magnetic taconite.

Senator POTTER. About just as much.

Mr. PARDEE. I think so. That is just an opinion. As I say, no published estimates, and I have not made any.

The estimate does not include any tonnage of iron ore from eastern Canada. The Canadian section of the report on iron ore prepared for the 1952 International Geological Congress shows 3 billions tons of developed and possible ore in the Quebec-Labrador region alone. Other reserves of iron ore brought to public notice within the last few years in eastern Ontario, Labrador, and Quebec add materially to the above tonnages.

In 1955, 87,459,853 tons of iron ore was moved down the Lakes of which 3,715,000 tons came from Canadian mines in the Lake Superior district.

An additional 6 million tons came to the United States from the Canadian mines in Labrador and Quebec, and most of this latter ore reached the United States furnaces through the ports of Baltimore and Philadelphia.

When the St. Lawrence Seaway is complete, large tonnages of this eastern Canadian ore will be moved to the furnaces in lake ships, and under emergency conditions this movement will be a very important one, especially so if coastwise shipping is endangered.

In 1955 there were over 13 million tons of iron ore imported from countries other than Canada, and all indications point to an increase in this movement of iron ore in the future, as shown by the diagram which accompanies this statement. Under emergency conditions some of this foreign ore would have to be replaced by ore from other sources, some of which would be from the Lake Superior region and some from eastern Canada, which would again put an additional load on the lake ships.

It is evident, therefore, that the lake ships will not lack for iron ore to transport for many years to come, based on our present knowledge of the reserves, and if the developments in later years compare in any way with those we have seen in the last 30 years, we are assured of ore for the ships and the furnaces for a long time to come.

The diagram just referred to shows the expected source of iron ore for the United States furnaces up through the year 1985. This diagram was made by Mr. Verne E. Johnston, engineer and geologist, who has been associated with the iron ore industry in responsible positions for over 35 years. The estimate is based on his study of the potential reserves and sources of iron ore, the grades needed by the furnaces, and in many cases, on his personal knowledge of the mining areas from which the ore will come.

A study of this chart indicates that under normal conditions there will always be a large movement of iron ore. This can be best illustrated by selecting some future years as examples. Using the years 1960 and 1980, the chart shows the expected movement of iron ore in the United States, and here, I would like to make a point very emphatically. The iron ore industry continuously has for years used gross tons. The figures given by Admiral Spencer were in net tons and the little discrepancy between our figures can be largely attributed to that change in the tonnage.

Senator POTTER. One being net and the other gross.

Mr. PARDEE. But, as I say, we have always used gross tons and in order to avoid confusion in the iron ore industry I have stuck closely to gross tons.

Now, the expected movement—I will not read the individual items, but it shows that the United States mines are going to need 139.3 million gross tons of ore to keep the furnaces going in 1960. In 1980. this becomes 152 million tons.

Now the chart also shows the estimated steel ingot capacity needed by this country, based on a prediction made by Mr. B. F. Fairless, formerly Chairman of the Board of the United States Steel Corporation. Three other prominent steel executives have made similar or larger estimates covering the future steel needs of this country.

I would like to say I understand Mr. Fairless has recently increased his estimate and, therefore, these tonnages are conservative estimates of what we may expect in the future.

Senator POTTER. On the conservative side?

Mr. PARDEE. Very much so.

In 1960 the 134.3 million tons of iron ore will provide 138 million tons of ingots, and on account of the increase in the tonnage of high-grade concentrates that are expected in the future, it will take only 152 million tons of iron ore in 1980 to make 166 tons of ingots.

That probably needs a little more explanation because the taconite pellets which are going to be more important in the future and concentrates of iron will be more important, will average over 60-percent iron, whereas last year—I will have to say 1954—we don't have figures for '55 yet—iron average percentage in all the ores brought down the Lakes was 53.9.

Senator POTTER. What was taconite?

Mr. PARDEE. Taconite all over 60 percent, so we will get a concentrate—and that is the reason it takes a little less tonnage of iron ore to make the required number of ingots.

It is obvious that not all of these tonnages or ore will have to be moved on the Great Lakes, but even under normal conditions with only half of the Canadian ore being transported on the Great Lakes, the tonnage requirements would be as follows:

From the underground ore, Michigan, Minnesota and Wisconsin, 1960, 14.0.

1980, 10.0.

United States Open Pit Gravity concentrates, 17 million in 1960 and 3 million in 1980.

From the United States Lake Superior Open Pits Direct Shipping, 32 million in 1960, and 15 million in 1980.

From Minnesota taconites and Michigan, Wisconsin jaspers, 18 million in 1960, and 42 million in 1980.

Senator POTTER. A large increase in volume there?

Mr. PARDEE. The future of the Lake Superior region is going to be in the development of the low-grade ores, which if they must be concentrated, will be concentrated into taconite pellets or richer ore than we have been shipping in the past.

I have estimated half the Canadian ore coming down through the Great Lakes or up the St. Lawrence and that will be 10 million in 1960 and 14 million in 1980. I think probably that is an underestimate. These totals are for the two years, 91 million, and 84 million and I would like to call your attention to differences between the ore that move down the Great Lakes and the total needed for the United States.

Eliminating the ore that will be used in other parts of the United States, western and southern, there will be a large tonnage that must come from foreign ores, something over 20 million in Ohio—1960, and I think much more than that in 1980.

Under emergency conditions when foreign ore, except that from Canada, is not available, the iron mines of the Lake Superior region and eastern Canada will have to make up the deficiency. In that case, the Great Lakes fleet will have to be prepared to move the additional tonnage.

Senator POTTER. Do you agree that it would be foolhardy to put all our eggs in one basket, even if we could, trying to bring in all of our ore from foreign countries at the expense of our domestic mines?

Mr. PARDEE. I do, yes, and I can give you personal testimony on that. I was with the American Embassy in Rio during World War II and the problems we had in getting iron ore and manganese to the United States was very difficult; difficult to get ships, more difficult to get men to take a chance to man the ships.

Senator POTTER. I would assume the lifeline of the iron ore industry is the ships that take out the ore from the mines to the mills?

Mr. PARDEE. That is it exactly.

Senator POTTER. And if those ships are not able to compete, with many of their trades now partly with Canada and partly domestic, when the St. Lawrence Seaway is completed, I would assume more and more ships and lines would have both foreign operations and domestic operations.

Mr. PARDEE. The iron mines in World War II expanded production to almost unbelievable heights, as you know, and they can do it again under a forced draft, but it will do them no good unless there is some way of getting that ore to the mills.

Senator POTTER. I know in Northern Michigan—Wisconsin area, with this new development of taconite, the utilization of this low-grade ore, that it has given a great hope and salvation to that area.

But you have to have the ships to get them down to the market, to the mills, and in time of national emergency, the value of this new taconite process would be invaluable.

Mr. PARDEE. The estimate of five billion tons for Michigan-Minnesota-Wisconsin and Western Ontario just proves that there is enough ore there, but we have to get it out before it is any good and down to the mills.

I did not intend to put this in as an exhibit, but I showed some people and thought you might be interested in it. It is a chart, showing the movement of the ores, and we can furnish as many of those as you need. This is for 1951. We do not make those very often because it is a tremendous job of calculating and balancing up the movements.

Senator POTTER. We would like to have it for the files of the committee.

Mr. PARDEE. I have a couple extra copies and I will give them to you.

Senator POTTER. I would like to have one for my own use.

Mr. PARDEE. I will see that you get it, not one but two.

Senator POTTER. Thank you.

Mr. Pardee, I am most appreciative of your testimony. It certainly reflects the need for a modernized Great Lakes area fleet.

Mr. PARDEE. Thank you very much for the opportunity.

Senator POTTER. Mr. Prince is general solicitor for the Association of American Railroads. I am delighted to have you here.

Mr. PRINCE. Thank you, sir.

STATEMENT OF GREGORY PRINCE, GENERAL SOLICITOR, ASSOCIATION OF AMERICAN RAILROADS

Mr. PRINCE. My name is Gregory S. Prince. I am general solicitor of the Association of American Railroads, with offices in the Transportation Building. I appear on behalf of the Association of American Railroads, the members of which operate more than 95 percent of the Class I railroad mileage in the United States.

Senator, before I start on my prepared statement, I would like to state that I did not get word of this hearing until last Monday, just as I was leaving for Chicago, and I did not return from Chicago until Saturday morning, so this has been prepared, you might say, under forced draft, and not being a subject with which we deal regularly, I am not too familiar with certain aspects of it and I apologize for any deficiencies in the statement or any lack of comprehension of what the problem is that is before this committee.

If I had the benefit of these illuminating statements this morning, I think I would have been in a position to make a somewhat better statement.

Senator POTTER. I can well appreciate that and we are happy to have your statement as it is. If later on you care to make corrections in your statement or additions, you may feel free to do so.

Mr. PRINCE. Thank you, sir.

I find some difficulty in fully understanding the intent of this bill or the need for it.

Senator POTTER. That has been answered?

Mr. PRINCE. That is the statement I had reference to in the outset. It proposes to amend section 510 of the Merchant Marine Act, 1936, by adding to it a new subsection prescribing a special basis upon which the Secretary of Commerce may acquire obsolete vessels of a particular classification, namely Great Lakes vessels designed to transport dry bulk commodities of specified types.

As I read the present section 510 its provisions already apply to Great Lakes vessels and the Secretary of Commerce can acquire such vessels on the same terms as other vessels. The purpose, therefore, would seem to be to alter some of these terms insofar as they apply to these particular vessels. One major change would seem to be to permit Great Lakes vessels to qualify as "obsolete vessels" after only 10 years instead of 12 years until June 30, 1958, or 17 years thereafter as in the case of other vessels.

Mr. PRINCE. I certainly hope you will correct me if I am in error on any of these statements because when you are unfamiliar with a subject and have to study the code to try to determine the status of the present law, you may slip into error.

Senator POTTER. That is just one of the qualifications.

Mr. PRINCE. Yes. Shall I continue?

Senator POTTER. Yes.

Mr. PRINCE. However, the major change would seem to be in the basis for the determination of the credit allowance for the obsolete vessel. For all other vessels the basis is the fair and reasonable value of the vessel using certain specified criteria for the determination of such value. For Great Lakes vessels this bill would substitute a formula based on the excess in the cost of building the new vessel in United States shipyards over the cost of building such a vessel in a foreign yard.

Such a formula, of course, has no relation to the fair and reasonable value of the obsolete vessel. Assume for instance that you have an obsolete Great Lakes vessel the fair and reasonable value of which is $500,000 and that the cost of replacement with a vessel of the same tonnage built in a United States shipyard would be $4 million and built in a foreign yard would be $2,500,000. The allowance for the obsolete vessel in such a case under the existing statute would be $500,000 and under S. 3108 $1,500,000. Furthermore, it should be noted that the formula for determining the allowance under the bill is substantially the same as the formula for determining a construction-differential subsidy.

Accordingly, I am forced to the conclusion that the effect of this bill is to grant a construction-differential subsidy for the construction of Great Lakes dry bulk commodity vessels. However, by placing the construction subsidy in section 510, the prohibitions and limitations imposed upon vessels constructed with the aid of a construction-differential subsidy are avoided. Under section 501, applications for a construction-differential subsidy can be made only to aid in the construction of a vessel to be used in the foreign commerce of the United States. And under section 506 every owner of a vessel for which a construction-differential subsidy has been paid must agree that the vessel shall be operated exclusively in foreign trade, with certain limited specified exceptions, and where the vessel is operated in the domestic trade the owner must repay the proportion of

the subsidy attributable to the use of the vessel in such trade. However, it is clear that it is intended by this bill that Great Lakes vessels built under this authority should not be subject to these restrictions because of the inclusion of the sentence that reads:

> Nothing in this subsection shall be construed as restricting the trade in which such new vessel may be used.

The necessity felt for including such a provision is probably indicative of a recognition that what is granted by this bill very closely resembles a construction-differential subsidy.

My remaining comments shall be directed toward this bill in its true light as a construction subsidy.

The effect of a construction subsidy is like that of any other type of subsidy. The cost of transportation equipment is a part of the cost of furnishing transportation service which in turn is reflected in the rates charged the shipper. Thus a ship construction subsidy enables a ship operator to quote lower rates than would be necessary to reflect the true cost of the transportation he is rendering. The inevitable result would be that with respect to competitive traffic this artificial advantage would enable Great Lakes vessels to divert a certain amount of traffic from the railroads. Such a discrimination against the railroads would clearly be contrary to the National Transportation Policy as declared by Congress, one of the principal tenets of which is equality of treatment for all forms of transportation. The provision of such a subsidy would also be contrary to the general public interest.

Senator POTTER. How much would the railroads lose if the foreign vessels come in and take over that trade or mines in that area in order to bring in foreign ore?

Mr. PRINCE. Senator, I do not believe there would be any effect on the railroads. If you take the commodity of ore, for instance, whether it should be moved in foreign vessels or in United States-owned vessels, I think the rail haul would be substantially the same.

I go on to point out later in here the rather limited competitive area in which we operate in relation to Lake carriers. It is not a large area of competition and we are very sympathetic with the problem of the Lake carriers, so far as their competition with foreign vessels.

Senator POTTER. Is it not true that during a national emergency, you work very closely together, and that is the reason I was wondering about the "dog in the manger" attitude of the railroads, as it is something which is not particularly competitive with you?

Mr. PRINCE. I undertake to call attention to that specifically because I want you to understand the spirit in which we appear here and I mention particularly that our area is a limited one and my hope is that you can find a solution to that problem which will——

Senator POTTER. You are like the Department of Commerce. [Laughter.]

Mr. PRINCE. Perhaps that is correct, except maybe it is more their problem than it is mine to find the solution.

The objective of the public interest in transportation is that the country be assured of a national transportation system capable of furnishing it at all times with the transportation it needs, of the quality it needs, at the lowest cost consistent with furnishing such service. In that objective the concern of the public is with the ultimate overall cost of all the transportation services provided rather than

with the immediate cost to particular shippers of particular services. To reach that objective in a free enterprise economy all transportation agencies should be required to stand on their own feet, deriving their entire financial support from the charges collected for their services.

The choice of shippers and travelers among competing transportation services will largely be determined by relative charges for the services rather than by relative costs of performing them. Unless, therefore, the rates charged by each mode of transportation reflect its true costs, we cannot hope for an economic distribution of traffic among the various modes, and it is only through an economic distribution of traffic among them that there can be any hope of developing and preserving the inherent advantages of each, as envisioned by the National Transportation Policy. To some extent in the case of all types of carriers, and to a marked degree in the case of the railroads, the unit costs of their services vary inversely with variations in the volume of their traffic. The inherent advantages of one type of transportation may thus easily be destroyed through loss of traffic to a less efficient type as the result of a wholly artificial advantage enjoyed by the latter because of Government aid. Such a situation must inevitably result in increasing the Nation's total transportation bill.

This point is well summarized in the report of the staff of the Board of Investigation and Research on Public Aids to Domestic Transportation in the following statement found on pages 87 and 88 of that report:

> When a medium of transportation is subsidized with public funds, the charges which shippers bear do not contain the full costs of providing that transportation. Users are not then in a sound economic position to express their comparative choices as to which kind of transportation they prefer. In these circumstances, competitive relationships within the transportation system are distorted, the relative economy and fitness of the alternative types are not truly reflected, an uneconomical allocation of capital is encouraged, and distributions of traffic will depart from true economic standards. Waste of public funds also is difficult, if not impossible, to check when special groups are impelled to solicit the provision of transportation facilities for which they do not pay. Questions of equity as between general taxpayers who foot the bill, and users of transportation who get the benefits, also are presented. * * *
>
> A sound and adequate domestic transportation system is most likely to result if the users of each means of transportation pay the costs which are fairly attributable to their use. Maldevelopment and waste are almost certain to accompany the provision of transportation facilities from public funds at taxpayers' expense, for then the surest guide to sound expenditure is denied—the calculated judgment of transportation users who indicate their preferences by an effective economic demand. Not only is there the possibility that transportation facilities will be overdeveloped in the aggregate; it is more likely that the different types will not be properly developed relative to each other—with the result in either case that the overall costs of transportation (public and private) are increased.

Nothing would seem clearer, therefore, than that the passage of S. 3108 would be in direct conflict with our National Transportation Policy and against the true public interest in a sound national transportation system.

In order that our position in this matter may be entirely clear I want to state frankly that the railroads are not competitive with the Great Lakes carriers with respect to much of the movement of dry bulk commodities over the Great Lakes, but that is not so with respect to all such movements. For instance, the railroads are in competition with lake vessels with respect to the movement of grain.

Senator POTTER. I think it costs the farmers about 12 cents more a bushel to ship by rail than by water within the Great Lakes region?

Mr. PRINCE. Senator, I am afraid I could not give you an answer to that—I do not know. I suppose it depends on which movements you are referring to.

Senator POTTER. I think the movement from Duluth to New York of wheat, it costs about 12 cents more a bushel by rail than water.

Mr. PRINCE. I hope you have not misunderstood what I intended to say here. I do not for a minute say that movement over the Great Lakes is not efficient and should not be utilized to the fullest extent. We recognize it as a very efficient form of transportation and one to which the least subsidy has been accorded than any other form of transportation.

Senator POTTER. Than the railroads in the past?

Mr. PRINCE. I would not agree with you on that, Senator.

Senator POTTER. What about land grants that were given, and I do not say it was not desirable—I think maybe it was—for the expansion of railroads, but I just wonder how that differs from other types of subsidies?

Mr. PRINCE. I would be happy to go into that. It might take some little time, but I would refer you particularly to reports of your own committees at the time when the land grant acts were repealed in which they found that the original subsidies were accompanied by strings attached to them, to the grants, that resulted in a return to the Government of every penny that they had given to the railroads in the form of land grants and many times over.

Senator POTTER. I think that argument can be made by most groups that received subsidies at the present time.

Mr. PRINCE. I don not mean general benefits to the Government, I mean in specific dollar return to the Government by giving them the right to haul their goods on the railroads at 50 percent of normal rates.

Senator POTTER. But, it was an incentive, at that time, for expansion of the railroads.

Mr. PRINCE. Correct. It was under conditions quite different from these. Now, I am not saying these are not meritorious, but I say that conditions are wholly different.

Senator POTTER. The interest here, as you have pointed out, is a foreign competition. That is the purpose for it. There would be no purpose in coming in and asking for legislation of this kind if it was not for the fact that foreign competition opened up the St. Lawrence Seaway and makes it necessary.

Now, that is the point I wanted to bring out as far as the railroads are concerned. Now, the railroads did not receive a subsidy but received very favorable freight rates along the coast there to ward off that competition, so it has been a two-way street.

Mr. PRINCE. Well, land grants were certainly not for the purpose of meeting any competition.

Senator POTTER. No, to expand the industry.

Mr. PRINCE. Expand the country, open up the country.

Senator POTTER. I say it was probably desirable but it always has more or less amused me when a large, responsible industry, such as the railroads, develops a "dog in the manger" attitude toward other industries that also serve a great national and public need.

Mr. PRINCE. I regret indeed that you consider it a "dog in the manger" attitude because I assure you, it is not.

Senator POTTER. It was my understanding and I understood you were going to testify about your little ferries——

Mr. PRINCE. There are other witnesses who expect to appear. I am appearing here to discuss what we consider to be the principles involved in this bill and to raise questions that we think you should consider in arriving at a determination whether this is the right answer to the problem.

We do not say that they should not be aided to meet this foreign competition. We recognize the value of the lake carrier industry. We work in the closest cooperation with them and to a large extent we supplement and complement each other, rather than compete against each other.

Senator POTTER. That is the reason I cannot understand your position.

Mr. PRINCE. I have not quite finished my statement.

Senator POTTER. Surely, go ahead.

Mr. PRINCE. Maybe some of this will be clarified as we are not just "dogs in the manger." We are sorry that this problem confronts them. We hope a solution can be found. We are asking you to seek a solution which will meet their problem and, at the same time, will not run counter to what we think is sound from the standpoint of the domestic transportation system. This bill, for instance, is not tailored solely to fit the need that is presented, as we see it. In other words, under your bill, a vessel could get this construction-differential subsidy and then engage solely in domestic commerce with no limitation upon it. Now, it may be difficult to try to limit it in that way, but I think that is something that your committee should consider.

Senator POTTER. Of course, you realize that it would be most difficult in any efficient management for a company which was engaged in domestic commerce and also in foreign commerce to designate this ship as one just for domestic commerce and this one just foreign commerce.

Earlier in your statement you talked about efficiency and certainly that would not tend towards efficient management. I do not know how you could break it up.

Mr. PRINCE. I agree that is quite difficult and I can understand too, but to my mind, the fact that they do need that greater flexibility would be highly desirable and I certainly would want to do it too, but to my mind, the fact that they do need that greater flexibility and so forth, is not sufficient reason alone to provide a solution which could, in my opinion, be of harm from the standpoint of the development of our domestic transportation system.

I am hoping there is some other solution available that does not have these deficiencies. We do not want to keep them from getting it simply from a "dog in the manger" standpoint. We have no desire to and when you had under consideration—I think you did for a short time a year ago—a treaty that might limit the Canadian-United States trade to vessels of Canada and United States, we did not, for a minute, oppose that and would not have under any conditions.

But, this is a little different.

Senator POTTER. Proceed.

Mr. PRINCE. Furthermore, we are even more deeply concerned by reason of the precedent you would be setting if this measure were to be adopted. In that event there would no doubt be protests regarding the discrimination in favor of lake vessels and demands would be made for similar treatment for intercoastal vessels and inland waterway vessels. All of that trade that such vessels are engaged in is, of course, trade for which the railroads are highly competitive.

If I might stop again and interpolate there, that has a great deal to do with our concern about this matter.

Senator POTTER. Of course the big difference there is the fact that your coastal shipping is purely domestic shipping, while the character of the trade of the Great Lakes is entirely different. I cannot see where your coastal shipping would be affected by foreign competition. A foreign ship cannot come in and go from one port to the next, but you can and do have shipping in the Great Lakes area where you have Great Lakes shipping from Canada to the United States, as a very important part of that shipping.

Mr. PRINCE. You can have the same thing on that Labrador from the Seven Islands to the Atlantic coast ports and, in fact, right now that is where the bulk of it is moving, Seven Islands to the Baltimore and Philadelphia area.

Senator POTTER. They will be moving now with foreign ships under foreign registry and built in foreign lands.

Mr. PRINCE. Why will the intercoastal people not come in and say they are confronted with exactly the same situation and the same competition and inasmuch as you have given protection to the Great Lake carriers, they want that protection to guard against the foreign vessels moving in from Seven Islands to Baltimore and Philadelphia?

Senator POTTER. As far as the railroads are concerned, if you have competition now, and you will have it, it will be more intensified by foreign built and operated ore carriers.

Mr. PRINCE. It is immaterial, as I see it, to the railroads, who carries it from Seven Islands to a United States port. It does not matter whether Lake Erie port, Baltimore or Philadelphia. It does not matter whether it comes by American vessel or by a foreign vessel, as far as its direct effect on us is concerned.

Senator POTTER. That is right. If it is not going to be carried on an American vessel, it is going to be carried on a foreign vessel?

Mr. PRINCE. Yes, sir.

Senator POTTER. So, what you are saying, your argument is that we do not want to do this for American-flag fleet and turn that trade over to a foreign operation?

Mr. PRINCE. No, I am saying, do not find as a means to meet your problem by subsidy that which would enable these vessels to engage in domestic commerce at the same time and still receive the benefit of that subsidy.

Senator POTTER. But, as to the point you mentioned about your coastal trade and other coastal shipping will want the same provision, as far as the railroads are concerned, all the competitive factors are there now, if ore will be shipped from Labrador to Charleston on foreign bottoms?

Mr. PRINCE. That is not competition with us, because from the Seven Islands to Atlantic coast ports, is not competition for the rail-

roads. What I was intending to say or trying to convey was that if you grant this in this form to the Great Lakes bulk commodity carriers and the intercoastal people come along and say, "Why don't you give us the same sort of a bill because we are confronted by this foreign competition on the movement of ore from Seven Islands to the Atlantic ports"——

Senator POTTER. Of course, that is not coastal shipping.

Mr. PRINCE. It is foreign commerce either way.

Senator POTTER. Yes, but you are talking about or I assume you are talking about coastal shipping moving from American port to American port, either on the west coast or east coast or Gulf. That is what we normally consider coastal shipping.

Mr. PRINCE. That is correct.

Senator POTTER. When you speak about shipping from Canada, I say that is foreign shipping.

Mr. PRINCE. That is right, foreign shipping from Seven Islands to Lake Erie ports or foreign trade from Seven Islands to the Atlantic ports. Now, the Great Lakes people are the ones in competition with the movement from Seven Islands to Lake Erie ports, that is correct, and I say our intercoastal people would like to have a protected trade for them from Seven Islands to the Gulf ports—I mean to the Atlantic ports, but since they cannot get it, just the way your bill could not receive favorable consideration for limiting the trade to take care of the Great Lakes vessels, they will say, "Well, give us this subsidy. Give us the construction-differential to put us on a basis where we can compete for that trade," and I think they would have a strong argument.

Mr. BOURBON. The intercoastal ships have never had any access to Canadian trade up to this time, whereas the Great Lakes people have been faced with it in some form or other for many years.

Mr. PRINCE. There may be some difference in that but I am just saying what you will be confronted with and the thing we fear most because then the intercoastal shippers, intercoastal operators, which is purely a domestic trade, would get this subsidy and they would be in competition with us on lots of movements. I am not talking about the ore movements. We would not care if they got it for that purpose.

Senator POTTER. Well, I cannot see the parallel between the foreign trade in the Great Lakes area as compared with your coastal trade. They are not in competition.

Mr. PRINCE. They would like to be.

Senator POTTER. With foreign shipping?

Mr. PRINCE. They would like to be.

Senator POTTER. If they do that, they are not in domestic trade.

Mr. PRINCE. The same thing is true of these Great Lakes vessels.

Senator POTTER. But Great Lakes vessels, I say, are in foreign trade. Coastal shipping, by the very nature of coastal domestic shipping, is the fact that it is American port to American port.

Mr. PRINCE. But the vast bulk of your trade on the Great Lakes is now domestic trade. I do not have the figures but I am quite certain that is a fact.

Senator POTTER. I think probably at the present time, the vast majority of it is.

Mr. PRINCE. It is not the present situation we are talking about; we are talking about the future situation as far as the Lakes are concerned.

Senator POTTER. Of course, as you see now, American shippers are having ships built in foreign yards, having them fly under a foreign flag to carry on salt water operations and carrying ore from Canada to other American ports, so it is not your domestic commerce operators that are going into that field, it is your foreign shipper.

Mr. PRINCE. But, quite possibly, some of our intercoastal vessels would like to engage in the traffic from Seven Islands to coastal ports——

Senator POTTER. Then they become foreign shippers.

Mr. PRINCE. And then they would like to go on and engage in some domestic commerce, too; they would like to intermingle as it might prove to be more flexible and better for them, and I just have this fear that they would seek the same sort of treatment and say that you have given this to the Lake cargo carriers and why should they not have it?

I hope that you will continue to argue that there is no similarity in case this bill goes through and they do come in because that, I concede, is what we fear more than this trade so far as its effect on us.

Senator POTTER. I do not believe there is a similarity and I see your point, that eventually, they might want to do that, but they would not be in domestic trade. They would not be coastal shippers, as we contend, from one American port to another. Today, if anyone wants to go over that way, they can do it and they are doing it now. As far as your effective competition of the railroads, it is not your domestic coastal shipper that is going to give you the competition. Your competition will come from anybody today who wants to go out and get his ship built at cut-rate costs in foreign yards, fly a Panamanian flag or some other flag, whose operating costs are much cheaper than ours, come down and drop his load off at Charleston or wherever he wants to drop it.

Mr. PRINCE. That does not provide any competition for us.

Senator POTTER. You mentioned about the domestic operators and I interpose if that is not competition, how would they be?

Mr. PRINCE. We do not want them to get a subsidy and then be able to engage in domestic commerce along the coast because we think that is contrary to the national transportation policy and to sound economics from the standpoint of building up a well integrated national transportation system. And, I think the Congress has agreed, because that has been your longstanding policy that these intercoastal ships are not entitled to a subsidy if they are engaged in domestic commerce.

This bill would constitute the first time that the Federal Government has subsidized the construction of vessels that would engage in domestic commerce. On every occasion in the past that such a proposal has been made the railroads have opposed it and we shall continue to oppose such proposals in the future. Thus far, Congress has wisely seen fit to reject all such proposals. We sincerely trust that no such longstanding policy as the one here involved will be abandoned through hasty action and particularly through the vehicle of this bill which raises the issue in such an oblique fashion.

There is one other aspect of the situation that should be considered. While I do not know that this is the case, it may well be that this proposal is tied in with the prospective opening of the St. Lawrence Waterway. As you can see, I was just speculating when I wrote this and have been well informed now that it has quite a lot to do with the opening of the St. Lawrence Waterway.

At least that is the only major change in the situation affecting trade on the Great Lakes that might account for the proposal of such a radical departure from our longstanding merchant marine policy as is involved here. If that be the case you should have in mind the following considerations.

I am sure you do have them in mind because most of the other witnesses have recognized what I am about to refer to here.

Section 27 of the Merchant Marine Act, 1920, as amended, provides in pertinent part that,

> No merchandise shall be transported by water or by land and water, on penalty of forfeiture thereof, between points in the United States, * * * either directly or via a foreign port, or for any part of the transportation, in any other vessel thus a vessel built in and documented under the laws of the United States and owned by persons who are citizens of the United States, * * *.

Thus, United States shipyards will not be subject to the threat of competition of foreign shipyards in the construction of vessels to be employed in domestic trade. Similarly, the operators of lake vessels will not be subject to the threat of competition from foreign vessels in the domestic trade.

Of course, foreign-built vessels could upon the completion of the St. Lawrence Waterway compete with United States lake cargo vessels for the movement of goods from Canada to the United States, as for instance, Labrador ore from Seven Islands in the Gulf of St. Lawrence to United States Great Lakes ports.

However, that fact would in no way justify a measure such as this that would permit lake cargo vessels obtaining a construction subsidy to engage not only in this competitive foreign trade but in domestic trade as well, or even in domestic trade alone. If that is the problem to which this bill is intended to be an answer, the solution is not properly tailored to the need.

I wish to remind the Committee, also, that under Sections 501 and 506 of the Merchant Marine Act any citizen may apply for a construction-differential subsidy to aid in the construction of a new vessel to be operated exclusively in foreign trade.

The fact that operators of lake vessels might want to engage in a mixture of foreign and domestic trade for their convenience or to achieve greater economy in their operations is no sufficient reason to abandon the wise and sound policy that limits the grant of construction subsidies to vessels engaged in foreign trade.

It would not seem amiss to remind the Committee that one of the arguments so long used in the advocacy of the St. Lawrence project was that it would provide the United States with a fourth seacoast. Now, it would seem that certain of these proponents do not regard this as an unmitigated blessing. They apparently would like the advantages that will flow from such a status but none of its disadvantages.

To be more specific it was long argued that the competition of foreign vessels with United States lake cargo vessels in certain of

their trade would be one of the unhappy consequences of the construction of the St. Lawrence Seaway, but the representatives of this industry saw fit ultimately to withdraw their opposition to the construction of that project. I believe the old adage still fits that "you can't have your cake and eat it too."

I ask the Committee to pause to consider whether in the event the opening of the St. Lawrence Waterway permits more readily the introduction into the heart of our country of manufactured goods produced with cheap foreign labor it would be wise policy for Congress to protect our manufacturers with a subsidy.

Once embarked upon a policy such as this bill calls for, it is difficult to see how or where you would draw the line beyond which you should not go in protecting United States interests against foreign competition.

If I have put my finger on what is really behind this bill, and the Committee should feel that the welfare of the United States Great Lakes shipping industry is seriously threatened, may I respectfully suggest that a solution be sought that does not, as this suggested one does, run counter to sound national transportation policies. I mean by that sound domestic transportation policies.

The railroads maintain most cordial relations with the lake carrier industry and have a high respect for this very efficient mode of transportation with which to a great extent it operates in the very closest cooperation rather than in severe competition. If their welfare is threatened we most sincerely hope that a remedy can be found, but, on the other hand, we cannot sit idly by when a suggested solution of one of their problems, which is wrong in principle, threatens our welfare.

In conclusion, I call your attention to the fact that any threat by reason of the St. Lawrence Waterway will not materialize substantially until the completion of the waterway which is some 3 or 4 years distant, so that if you are presented with a problem that needs a remedy in the national interest, there is still time in which to seek a sounder solution than the one here suggested.

In the light of the above considerations, gentlemen, we respectfully urge that you not give favorable consideration to S. 3108.

Mr. BOURBON. You are familiar with the program by which the Government aided these vessels during the period of 1941–1943 during World War II?

Mr. PRINCE. I have learned more about it here today than I knew before.

Mr. BOURBON. As far as you know, the railroads did not oppose that at the time, did they?

Mr. PRINCE. I do not think so; no.

Senator POTTER. Would you be agreeable to that type of help at this time?

Mr. PRINCE. May I ask a question by way of preface to an answer?

I am not sure I can give it to you but I will try. Was that limited to ore carriers?

Mr. BOURBON. They were bulk carriers. I do not know whether they were really limited to ore carriers. Maybe one of the gentlemen in the room can answer that.

Senator POTTER. Mr. Spencer, do you know whether it was limited to ore carriers?

Mr. SPENCER. All bulk carriers, regardless of the commodity they carried.

Mr. PRINCE. Were they used primarily for iron ore, do you know?

Mr. SPENCER. As any bulk carrier engages at least in coal or grain, stone and what one did I miss—coal, ore, grain and stone—they were all used for that purpose and are still used for that purpose today.

Mr. PRINCE. I take it then, just general bulk carriers. The reason I made the inquiry is that we certainly are not competitive with the bulk carriers in the transportation of iron ore. Their form of transport is inherently so much more efficient over the Great Lakes than ours, for the comparable overland route, that we are unable to compete with them.

The only movement of iron ore that we make from the Lake Superior region to the steel mills would be the Chicago ore in the Ohio District, which has been limited, for the most part, to certain emergency movements in the wintertime when the stocks at the steel mills were low and we have moved whole trainloads of iron ore. They were willing, of course, to pay the higher cost of that because it was an emergency and they needed it, but generally speaking, we are not in competition on that movement.

Anything that will limit it to the use of carriers for iron ore, and if they were given some sort of aid to enable them to compete with foreign vessels in the movement of iron ore from Seven Islands to Lake Erie ports, I am sure would not be harmful to us.

Mr. BOURBON. Would that apply also to movements from Duluth, for instance, to Cleveland and in that direction?

Mr. PRINCE. Of course, no foreign competition could disturb them in the movement of iron ore from Duluth to Lake Erie ports.

Mr. BOURBON. I mean if those ships were to be given the same sort of relief as during World War II, would there be objection, do you think, on the part of the railroads?

Mr. PRINCE. They would not be limited in the trade in which they could engage?

Mr. BOURBON. If they were limited by the bill, for instance, to carriage of iron ore?

Mr. PRINCE. This is sort of off the cuff, but I would be inclined to think that that would not be objectionable.

Senator POTTER. Of course, it would not be practicable to limit the type of cargo that they could haul. I would assume many of them that carry iron ore one way, carry coal the other, in order to make it an efficient operation.

Mr. PRINCE. It might be iron ore and coal combined, and that would not be harmful to us because I do not think that we would be strictly competitive on the movement of coal across the lakes westbound.

Senator POTTER. As I understand the purport of your statement, it is not as much that your Lake shippers are in competition with the railroads, but you are fearful that it might extend to the coastal operation, where you do have a greater competitive factor. Am I correct in that?

Mr. PRINCE. Well, you are certainly partially correct, Senator Potter. I cannot say that we are not interested in the bill, per se, because we are in competition in the movement of grain. Now, as to that, as I understand it, and, of course, I am a lawyer and not a traffic man but I did take the opportunity to discuss this bill with several traffic men so that I would not get off base on this, and they said that they are in competition in the movement of grain in this way, that there is a point distant, a certain distance from the Lakes beyond which the grain will naturally gravitate toward movement by rail.

Then, there is an area, you might say, that is adjacent to the Lakes, in which all of the traffic would move over the Great Lakes. Certainly, the bulk movement of grain across the Great Lakes is cheaper in these Lake cargo carriers than it is by rail. I do not think any railroad man would dispute that.

But, if you were to just accept, as a premise, that you were going to subsidize the Great Lakes vessels to a great extent—suppose on top of the construction subsidy, you were to give them an operating subsidy? Who knows, maybe after this St. Lawrence Waterway is opened up, the construction subsidy will not be enough to enable them to compete and then they ask for an operating subsidy? Just assume they are subsidized heavily? Then, it is a foregone conclusion that they could draw grain from further distant points and attract it to the Great Lakes because they could quote a lower rate by reason of the subsidy.

Senator POTTER. Of course, you are going to have Great Lakes trade routes which will be operating under an operating subsidy.

Mr. PRINCE. Yes, sir, but that is strictly in foreign commerce.

Senator POTTER. There is no thought at all of an operating subsidy where a person is in partially domestic commerce.

Mr. PRINCE. Now, may I ask respectfully, suppose this bill does not provide enough aid and you find yourself in the same situation, 5 years from now, in which this did not provide enough inducement to build the necessary number of new cargo carriers?

The difference in operating expense between our vessels and the foreign vessels is very large indeed and you figure the amount of money, the capital amount that would be necessary to make up for the difference in operating costs and it might be far greater than they would get out of this bill alone, so maybe this would not be enough to meet the problem you had in mind. Why would you not then come to an operating subsidy?

Senator POTTER. I think we are speculating on a lot of ifs in a case of that kind.

Mr. PRINCE. I agree.

Senator POTTER. We are confronted with a problem at the present time. I think that you recognize and appreciate that the problem is obsolescent ships and no incentive to replace them. Now, I do not have any pride of authorship in this bill and if the railroads have an idea of how we can get some more ships to replace the obsolescent ships, we would like to have it.

We do know and I think you will find that Congress is not going to sit by, from a national defense point of view, because we recall and remember the war too vividly. We know the need of these vessels, and I am sure that the Congress is going to see that we have some

type of program that will act as an incentive to construct new ships for the Great Lakes.

Now, how that is to be done, whether this bill is the answer or whether the Administration's Maritime Board has the authority under existing law to do it, I do not know. But it is just inconceivable to me how we can afford, just from a national defense standpoint, to sit back and not have some program to replace the vessels.

Mr. PRINCE. Let me ask this, Senator. Under your construction-differential subsidy that is applicable to seagoing vessels, say there are certain limited exceptions in which they can engage in domestic commerce—I think it is on round-the-world voyages, what they call a round voyage from the west coast to Europe, they can engage in coastwise traffic between the west coast and east coast but they must return a proportion of the construction subsidy, if they receive one, and they must return a proportion of the operating subsidy and that is attributable to that business in domestic trade.

Now, at the very least, shouldn't there be some such provision in that in here?

Senator POTTER. That provision might be considered.

Mr. PRINCE. At least that would prevent a vessel——

Senator POTTER. In other words, if an owner receives a construction differential, it would be in proportion to the amount of foreign trade in which that ship would be engaged. Is that the point of view?

Mr. PRINCE. That, in general, is the way I understand it operates. That would at least prevent a vessel from getting this subsidy and then not utilizing it to meet the need that has been presented to you, of competition from foreign vessels, but of utilizing it solely in domestic trade where no foreign vessel can operate.

Senator POTTER. Of course, there is another competitive factor, which is a little more indirect. There is an effect of foreign shipments of ore under foreign flags and foreign construction coming in. Unless some effort is made to keep alive an American fleet on the Great Lakes, you are going to see a runaway effort being made to bring in Venezuelan ore or ore from other countries. Then in the case of an emergency, when those markets might be cut off, we would be seriously hampered in a defense effort.

So, while it is an indirect type of competition, it does exist.

Mr. PRINCE. There is no doubt about that. I recognize that the introduction of foreign ore itself is a problem that you have to consider. It is not just the Lake cargo carriers and means of transporting ore, but you might say it is just as important to have the ore industry in this country in a healthy state.

Senator POTTER. That is right.

Mr. PRINCE. So that in the event war comes and these foreign shipments are cut off, you will have an adequate means of supplying the ore.

Senator POTTER. That is right.

Mr. PRINCE. So, what are you going to do? Are you going to take the next step—do you have to do something about the industry? As I say, it is awfully hard to know where you can draw the line on protection against foreign competition. I think it is a serious problem. I certainly do not purport to have the answer but I think the Congress, when it takes a step of this kind, has got to think about the

logical consequences and where you might be called upon next to provide a similar type of protection.

Senator POTTER. Of course, it is not essentially a protection, but a means of allowing them to compete. I assume that they could compete very well if Congress allowed them to go over to Norway, for instance, and have their ships built there and if Congress would allow them to sail with foreign crews. I think they could compete very well but Congress puts restrictions upon them because they are American-flag ships. And, as a result of that, they have an additional cost that is imposed upon them, whereas in a free competitive market, they could go out and compete with anyone.

Mr. PRINCE. No doubt about it, but that is not limited to shipping.

Senator POTTER. No, that is true, although they are directly under the gun in that competitive field.

Mr. PRINCE. Take the mining of the ore in Venezuela, no doubt, the labor is much cheaper there than the labor in Minnesota. That creates a competitive advantage, you might say, of the ore in Venezuela as against our ore, and it is vitally important that we keep a healthy, strong condition in our domestic ore producers.

Senator POTTER. Of course, normally, that differential in labor costs in mining is normally lessened by the closeness to the market of the mills that our mines have. But, when that is exaggerated by utilizing foreign transportation, it does present a real problem.

Mr. PRINCE. As I see it, all of those things enter into the picture. What we are interested in is the cost of ore delivered at the mills. At lease, that is what the steel mills are interested in and they have to take into account the cost of producing the ore, plus the transportation of it to its destination, and then there may be advantages, one over the other, as far as domestic as compared to foreign. There may be advantages in the lower labor costs, both in production of the ore and in the movement of the ore, but because it is a greater distance away, when you get it to the mill, it is in competition with our domestic ore that has been mined with higher labor costs and higher transportation costs because it did not have as far to go, and got to the mill at the same price.

All of those things, it seems to me, as you say, enter into the picture. It is not just as any one of them that is the factor.

Senator POTTER. Well, that might be so. It happens, as far as the committee and the problem confronting the committee, the transportation is the problem. I would assume that if you would get a lot of people and ask them how they feel, they would cite other problems, but we have, I think, a very real problem here and that is one of our immediate considerations.

I have no further questions, Mr. Prince. I thank you for coming here. I really wish that the various modes of transportation—I remember when I was over in the House on the Merchant Marine Committee in the House, you would find one type of water transportation coming in and opposing action by another type of water transportation, and it has always seemed to me that many of our problems were similar—that much more could be gained by working together than by throwing up a barrier every time something happens. Because, as a whole, transportation is such a dynamic and moving thing today, that there is a great need for development of all modes of transportation.

If I were a stockholder in a railroad, the last thing I would want to see happen, would be to see the bulk carriers go off the Great Lakes.

Mr. PRINCE. We agree with you, Senator Potter.

Senator POTTER. I am sure that the Lake carriers would agree that they would not want to see the railroads go off in that area.

Mr. PRINCE. I think that is so, too.

Senator POTTER. I hope that a high degree of statesmanship will develop in the transportation field where we will be able to work together in a more unified effort than the sectional industrial thinking that has prevailed in many cases in the past.

Mr. PRINCE. Well, we just hope that in weighing this problem, you will take into consideration the aspect of it that has to do with the competitive relationship of these two modes of transportation in connection with our domestic transportation system and, in some way, try to limit your remedy or provide a remedy that would meet the problem that you have in mind and, at the same time, not upset the balance within our domestic transportation system.

Senator POTTER. Thank you.

Mr. PRINCE. If we can think of any way, we will be glad to pass it on to you.

Senator POTTER. Thank you.

Mr. PRINCE. Thank you very much, Senator.

Mr. JOHNSON. Mr. Chairman, could I comment on the 10-year provision?

Senator POTTER. Yes.

Mr. JOHNSON. One is that a Great Lakes vessel is enrolled and licensed under the laws of the United States for trade on the Great Lakes and has been so enrolled and licensed for a period of at least 10 years. That means you cannot bring a ship outside the Great Lakes and say, "I have a Great Lakes vessel."

The other is—I know there are two points ——

Mr. PRINCE. Before you leave that, Mr. Johnson, could I ask whether it would not be true, if you have a vessel that was built on the Great Lakes and had been under American ownership for the full 10 years and was only 10 years' old, would it still be eligible for turning in as an obsolete vessel?

Mr. JOHNSON. No, it would not because other provisions of the bill say that:

> Except as they may be inconsistent with this subsection, all the provisions of subsection (a) through (g) shall be applicable to the acquisition of an obsolete vessel or vessels as provided in this subsection.

It does not lower the age limit at all.

Mr. PRINCE. I think you are right. That is the sort of thing I was afraid I would slip on.

Senator POTTER. Thank you, Mr. Prince.

Mr. Wilber.

Before you begin to testify, Mr. Wilber, I have a letter from Senator George Bender, junior Senator from Ohio, which I will read into the record at this point.

> It is my understanding that hearings on S. 3108 (similar to H. R. 8886) are scheduled to commence on Monday, April 16.
>
> I would deeply appreciate your giving attention to the possibility of amending the bill to include train ferries operating on Lake Michigan. These train ferries are not bulk carriers but are rather extensions of railroad tracks across

Lake Michigan. Each vessel carries approximately 32 freight cars and some have limited accommodations for passengers and their automobiles. The movement across lake is covered by railroad tariffs filed with the ICC.

I believe the extension would be justified in the interest of the public and I would deeply appreciate consideration of the extension during the hearings on the subject.

Mr. Joseph C. Kaufman, vice president and general counsel of the Chesapeake and Ohio Railway Co., Terminal Tower, Cleveland, Ohio, has written me in this regard and I would further apppreciate your permitting him to appear before the committee in connection with this bill.

With kindest regards, I am

Cordially,

GEORGE H. BENDER.

So, Mr. Wilber, is Mr. Kauffman with you?

Mr. WILBER. He is not with me.

Senator POTTER. You can tell Mr. Kauffman that Senator Bender had kind things to say about the proposed amendments.

Mr. WILBER. I will be glad to do that, sir.

STATEMENT OF GLENN C. WILBER, ASSISTANT GENERAL COUNSEL OF THE CHESAPEAKE & OHIO RAILWAY CO., IN CHARGE OF THE DETROIT OFFICE OF THE LAW DEPARTMENT

Mr. WILBER. My name is Glenn C. Wilber, and I am assistant general counsel of the Chesapeake and Ohio Railway Company, in charge of the Detroit office of the law department. Having been a member of the law department of the Chesapeake and Ohio Railway Company and its predecessor, Pere Marquette Railway Company, since 1938, I have had occasion to become acquainted with railroad train ferry operations. Today I am speaking on behalf of Chesapeake and Ohio, Grand Trunk Western Railroad Company, the Ann Arbor Railroad Company, Wabash Railroad Company, and the Mackinac Transportation Company—jointly owned by the New York Central System, the Pennsylvania Railroad Company, and Duluth, South Shore and Atlantic Railroad Company—all of which operate railroad train ferries on the Great Lakes. Thus, while we are railroaders, we are also vessel operators and have been in the business since the 1870's.

At this point I would like to say Mr. Gilbert A. Schuessler, general attorney for Wabash Railroad, is here with us and Mr. L. H. Kent, who up to his retirement 2½ years ago, was our superintendent of steamships at Ludington, Mich.

Senator POTTER. Gentlemen, we are glad to have you here, and any time you have any comments that you would like to make, feel free to do so.

Mr. WILBER. Mr. Kent is a licensed chief engineer, and sailed on salt water for many years. He was in the Navy in World War I. Following that, he attended the University of Michigan, where he received a degree of bachelor of science and in mechanical engineering, and also bachelor of science in naval architecture.

After that he came to the railway and has had considerable experience in the operation of vessels, as well as in their design. I have worked with Mr. Kent on four of our ships, in which he prepared the designs and specifications. I know he prepared some of the earlier specifications before that time.

During World War II he held the rank of commander in the Coast Guard Reserve. Later on I will mention some of the things that we did in connection with that work, largely under Mr. Kent's supervision.

This interest in shipping is what brings us to the hearing today. We are in complete agreement with the policy of keeping the United States merchant marine in full vigor, and with the opening of the St. Lawrence Seaway to vessels of all nations. Great Lakes shipping is about to face some of the problems of the foreign trade. The purpose of the railroads' appearance here is to point out that their problems in the marine field are similar to those of the bulk carriers and that railroad train ferries are equally as important to this country's transportation as are the great ore boats. Thus, we believe the provisions of S. 3108 should be applicable to both.

We learned about this bill after it was introduced and had no part in initiation of the proposal. The wisdom of the bill rests with this committee and the Congress. Our position is that if this type of program is to be extended to the ore carriers, then it should be extended to the railroad train ferries as well.

Senator POTTER. You are not advocating the bill?

Mr. WILBER. We are not advocating the bill. If it is to be adopted, then we think the railroad train ferries should be included.

Senator POTTER. You heard Mr. Prince's testimony?

Mr. WILBER. Yes, sir; I did.

Senator POTTER. Was he speaking for your people, as well?

Mr. WILBER. I would say to a certain extent, Senator.

(Laughter.)

Senator POTTER. You are sort of in a dual capacity?

Mr. WILBER. That is right. I think much of Mr. Prince's philosophy I can agree with. I do think that we have a situation here that is different and we are in this connection similar to the ore carriers. Now, if it is to be the policy, then we think that we should be in the same group.

Frequently I have found that people who are not familiar with railroad train ferries have very little idea what they are, or look like. In fact, a custom house broker whom I know in New York City and who is an authority on maritime matters was amazed when he first saw one of our ships. You will notice that I refer to them as "train ferries" rather than "car ferries." We have adopted the name because so many people think of a car ferry as being a little boat that carries automobiles across a stream. If you will pardon a trace of pride, I should like to describe the kind of vessel the railroads operate.

And at this point, may I say that the committee has copies of pictures of some of the ferries and also a map of the Great Lakes on which the train ferry routes are indicated. Perhaps a reference to them will be helpful as I describe the ships.

These ships are from 260 to 410 feet in length, from 53 to 77 feet in breadth, and vary between 2,000 and 4,300 gross tons. Cargo is not loaded by nets through hatches. Instead, it remains in the railroad freight cars, and cars and all are transported across the lake or the river. The ships tie up stern first at specially constructed slips, and a switch engine pushes the freight cars onto the railroad tracks on the car deck. At the other port another locomotive pulls

them off and makes them up into a train for further rail haul. Especially designed for ice breaking, these ferries operate throughout the year, summer and winter. They are frequently used to supplement the United States Coast Guard ice breakers. In effect, these ships are extensions of the railroad lines, bridges over the waters.

The ferries are of two types—lake and river. The lake ferries have an enclosed main or car deck, usually with 4 railroad tracks upon which from 20 to 30 or more freight cars can be carried. Many of them have 1 or 2 upper decks for the accommodation of passengers. Some of the newer ships have overnight accommodations for 150 passengers, as well as dining rooms, salons, and deck space. In addition, they carry automobiles, trailers, and trucks. Passenger and automobile transportation becomes of importance since one or more of the United States highways runs to the shore of Lake Michigan and picks up again on the other side, with the railroad ferry providing the link.

The river ferries, used on the Detroit and St. Clair Rivers, have about the same freight car capacity as the lake ships. However, since their runs are short and in sheltered waters, they do not have enclosed decks. Neither do they have passenger accommodations, although they have been used in the past to transfer loaded passenger cars.

To give you some idea of the size of the fleets engaged in the train ferry operation, I should like to submit statements marked exhibits 1 through 5 prepared by the Chesapeake & Ohio, Ann Arbor, Grand Trunk, and Wabash railroads and by the Mackinac Transportation Co. These include both lake and river ferries. Where the port of documentation is shown as Detroit or Port Huron, the vessel is of the river type. The rest are lake ships. You will observe from the statements that the vessels are of respectable size and tonnage. Some of them have seen many years of service, others are just nicely broken in. If we may leave the statements for now, we shall return to them in a few minutes.

While the Great Lakes provide a highway for the bulk carriers, they are an obstacle to the railroads, to be crossed with as short a voyage as is feasible. Thus, there are a number of routes operated on Lake Erie, Lake Michigan, and the Detroit and St. Clair Rivers. Those are shown on the map, attached to the pictures.

Beginning at Detroit, the Wabash operates across the Detroit River between Detroit and Windsor, Ontario. These are 4 ferries at this point, 3 of them owned by the Wabash and 1 operated by it under charter from the Chesapeake & Ohio. The Canadian National Railways operate a ferry between Detroit and Windsor, but since she is of Canadian registry we need do no more than mention the service for our present purposes.

Upstream at Port Huron, Chesapeake & Ohio operates two river ferries between that city and Sarnia, Ontario. At the Straits of Mackinac, the Mackinac Transportation Co. has two lake ferries between Mackinac City and St. Ignace, linking the upper and lower peninsulas of Michigan.

The Ann Arbor has its main port at Frankfort, Mich. This is on Lake Michigan near the north tip of the lower peninsula. From here its routes fan out across the lake to Mainstique and Menominee,

in the upper peninsula, and to Kewaunee and Manitowoc, Wis. Five ships are operated by the Ann Arbor. Farther south, at Ludington, Mich., the Chesapeake & Ohio's main port, the routes are to Kewaunee, Manitowoc, and Milwaukee, Wis. There are eight vessels in this fleet, although one of them is not in service at the present time. Still farther south is the Grand Trunk Western's route between Muskegon, Mich., and Milwaukee, on which three ferries are used. To complete the picture, Pennsylvania-Ontario Transportation Co.—jointly owned by the Pennsylvania Railroad and the Canadian Pacific Railway—has a lake ferry operating on Lake Erie between Ashtabula, Ohio, and Port Burwell, Ontario.

Having mentioned the fleets and their routes, may I now say a word about traffic. I submit a statement marked "Exhibit 6" showing the number of railroad cars, passengers and motor vehicles transported during the period 1951–55, inclusive, by the Chesapeake & Ohio, Ann Arbor, Wabash, Grand Trunk Western, and Mackinac Transportation Co.

I will not undertake to make any comment, Senator, because our time is running short. It is already in the record.

When a large bulk carrier takes on cargo, it is easy to record the number of tons of ore, or coal, or grain loaded. But when a train ferry is loaded, the cargo consists of whatever is contained in the freight cars pushed onto her car deck. Perries carry everything a railroad does except dangerous commodities such as explosives. The cargo will consist of some or all of the following: agricultural implements, automobiles and parts, automobile frames, beer, bottles, brick, canned goods, cans, cement, chemicals, clay, coal, dairy products, fertilizers, flooring and millwork, forest products, fruits and vegetables, furniture, general merchandise, grain and grain products, granules, hay, hides, household appliances, iron and steel, machinery, malt, packinghouse products, paper and paper products, petroleum products, plumber goods, salt, sand and gravel, and tile.

The passenger runs of the ferries are among the few boat trips remaining on the Great Lakes. In addition to the tourists who break their automobile trip with a restful lake voyage, many passengers are residents of Michigan communities going to Wisconsin towns for the day—perhaps to see the Milwaukee Braves play a ball game, or they may be Wisconsinites cruising to Michigan towns.

Another word about the importance of the train ferries to this country's peacetime commerce and to the national defense in time of emergency. By their use the railroads are able to provide direct all-rail transportation between the Atlantic seaboard and the Northwest and the West, avoiding completely the congested terminals of Chicago and saving upwards of a day's time.

When freight cars are short, every day that can be saved on a car means that much more efficient use of the existing fleet and thus increases the railroads' carrying capacity. And, of course, the shipping public is afforded better service.

During World War II the ferries were schools for the training of Navy and Coast Guard personnel. Naval engineering officers rode the ships for weeks at a time as part of their preparation for handling similar propulsion machinery on aircraft carriers. Coastguardsmen spent up to 3 months abroad the ships and at the shore installations learning the skills they were to need in the service.

Meantime, the ferries were loaded to capacity, carrying military and other essential freight. If through sabotage or other enemy action the Chicago terminal area should be put out of commission, the numerous routes provided by the railroad ferries would provide means of transportation. If, in addition, the locks at Sault St. Marie should become inoperative, these ships would provide an emergency method of transporting iron ore to help to supply the steel plants downstream. In a manner of speaking, this is the dispersal program urged by the Office of Defense Mobilization.

Returning now to the statements showing the fleets of the several railroads, may I call your attention to the cost of ships built in the 1920's as compared with those of the present time. For example, in the case of the Chesapeake & Ohio, the *Pere Marquette 21* cost less than $800,000 when she was built in 1924. In 1954 she was modernized by adding 40 feet amidships and installing new engines and boilers at a cost of $1,400,000, twice the original price of the ship.

The *City of Midland 41* was built in 1941 at a cost of a little over $2 million. Twelve years later the *Spartan* and the *Badger*, basically like the *Midland*, came to almost $5 million each. I had a hand in the negotiations for the building of all three of these ships and know something about the problems involved.

The *Midland* was purchased outright, with payments to the builder as construction progressed. Although the Chesapeake & Ohio is one of the larger railroads of the country, our management did not feel that a $10 million price tag for the two new ships was one that could be paid in cash. Consequently, a highly complicated financing transaction was necessary. Had some procedure similar to that proposed in S. 3108 been available, I am sure it would have been used.

For the past few years the Ann Arbor Railroad Co. has had under serious study the building of a new train ferry, the estimated cost of which is between $5 million and $7 million. In 1955 the Ann Arbor, along with most of the railroads, had one of its better years and yet realized a net profit of only about $850,000 on gross revenue of about $9,300,000.

Such an expenditure for a railroad the size of the Ann Arbor is a serious problem. The Ann Arbor equipment statement, exhibit 2, shows that its oldest ferry was built in 1898 and its newest in 1927. The importance of train ferries to the Ann Arbor operations is shown by the fact that in 1955 approximately 70 percent of the total number of loaded cars transported by it moved over its Lake Michigan train ferries. It is obvious that the proposed legislation could be of great help to the Ann Arbor in modernizing its fleet.

The other train ferry lines are faced with like problems.

All of the railroads for whom I appear are making vast expenditures for new locomotives and cars, for new signal and communication systems, and for other roadway improvements. Chesapeake and Ohio alone has invested $520 million in this way in the past 10 years, four-fifths of it paid for currently and only one-fifth by long-term debt. In 1955 alone, the company ordered 13,000 freight cars and 211 locomotive units, most of which will be delivered and paid for in this and future years. And nowadays a plain boxcar costs in the neighborhood of $5,000.

To sum up the arithmetic, the railroads are plowing back earnings and borrowing money to keep in shape to meet the needs of the public.

Extending to them the benefits of the program contained in S. 3108 will help materially in providing the necessary transportation services and will also be of benefit to shipyard workers and shipbuilders of the Great Lakes.

May I say at this point that my statement has several paragraphs calling attention to changes that would probably be required in S. 3108. It is in the statement and I believe that we could well dispense——

Senator POTTER. Without objection, that will be included in your statement.

Mr. WILBER. Several revisions would be required to make the bill applicable to train ferries. Where reference is made to "transportation of bulk commodities" there should be additional wording to cover the ferries. While we prefer the use of "train ferry," there is a precedent for the use of "railroad car ferry" to be found in section 27 of the Merchant Marine Act of 1920, as amended. 46 U. S. C. § 883. Such reference could be incorporated in the definition of "obsolete" vessel—lines 4 to 6 of page 2 of the bill—in the definition of "new vessel," lines 13 to 15 of page 2, and in lines 6 to 8 on page 3 relating to the cost of construction in a foreign shipyard.

Requirement (1) for an obsolete vessel is that she be enrolled and licensed at the present time and that she has been enrolled and licensed for a period of at least 10 years.

As noted on exhibit 1, *Pere Marquette 18*, built in 1911, was taken out of service several years ago. She had over 30 years of service, all as an enrolled and licensed vessel. Licenses must be renewed annually, and when this is not done, the Consolidated Certificate of Enrollment and License must be delivered to the United States Customs. Under the present wording of the bill, there might be some doubt whether she falls within the definition of an "obsolete vessel." This could be clarified by a proviso that a vessel is "obsolete" if the reason for not being licensed is that she is out of service.

Requirement (3) for an obsolete vessel is that she be of not less than 3,000 gross tons. This figure is no doubt an appropriate one for bulk carriers, but is on the high side for railroad ferries. Section 510 (a) of the Merchant Marine Act of 1936, as amended, 46 U. S. C. § 1160 (a), is a part of the same section to which it is proposed to add the provisions of S. 3108.

This paragraph (a) defines obsolete vessels as those of not less than 1,350 gross tons. The last paragraph of S. 3108 would make paragraphs (a) through (g) of section 510 applicable, except as inconsistent with the new bill. If 1,350 gross tons is too small a figure, we urge that the new one be set at 2,000 gross tons.

Requirement (4) for an obsolete vessel is that she be owned by a citizen of the United States. Section 27, as amended, of the Merchant Marine Act of 1920, 46 U. S. C. § 883, prohibits the transportation of merchandise by water between points in the United States in a vessel not owned by citizens of the United States, but by proviso exempts from its terms merchandise transported between United States points over through routes recognized by the Interstate Commerce Commission where the routes are in part over Canadian railways and their own or connecting water facilities. A comparable provision should be included in Requirement (4).

We believe we have demonstrated that S. 3108 should be expanded to make it applicable to railroad ferries. They perform an essential

function in this country's transportation system, both in peacetime and during national emergency. As we have seen, there are many obsolete vessels in the fleets. If this important service is to be rendered efficiently, the fleets must be modernized. Because of the costs involved, the railroads have found it difficult to provide new vessels. Assistance under S. 3108 would be a help in solving the problem.

In conclusion, on behalf of all our railroads, may I express our appreciation to the committee for the privilege of being present and for the opportunity to call to your attention what we believe is a constructive suggestion.

(The exhibits referred to above are as follows:)

EXHIBIT 1.—*The Chesapeake & Ohio Ry. Co.—Train ferries*

Name	Year built	Place built	Port of documentation	Overall dimensions	Gross tonnage	Net tonnage	Original cost	Cost of additions	Total cost
Pere Marquette 10	1945	Manitowoc	Detroit	400′ x 53′2″ x 22′	2769	762	$1,148,842	$15,220	$1,164,063
Pere Marquette 12	1927	do	do	400′ x 54′1″ x 22′	2767	1123	622,840	20,620	643,461
Pere Marquette 14 [1]	1904	Detroit	do	351′9″ x 54′1″ x 21′	2531	1655	305,204	27,045	332,249
Pere Marquette 18 [2]	1911	Chicago	Muskegon	350′ x 57′6″ x 20′6″	2777	1660	312,851	38,377	351,228
Pere Marquette 21 [3]	1924	Manitowoc	do	400′ x 57′8″ x 21′6″	3558	1935	786,599	1,400,655	2,187,254
Pere Marquette 22 [3]	1924	do	do	400′ x 57′8″ x 21′6″	3551	1925	786,599	1,346,397	2,132,996
City of Saginaw 31	1929	do	do	381′6″ x 58′3″ x 22′6″	3327	762	1,306,757	136,221	1,442,979
City of Flint 32	1930	do	do	381′6″ x 58′3″ x 22′6″	3327	762	1,265,548	108,751	1,374,299
City of Midland 41	1941	do	do	407′ x 58′6″ x 23′6″	3968	833	2,056,008	41,916	2,097,924
Spartan	1952	Sturgeon Bay	do	410′6″ x 60′4¼″ x 24′	4244	2033	4,964,294	21	4,964,316
Badger	1953	do	do	410′6″ x 60′4¼″ x 24′	4244	2033	4,893,362	349	4,893,711

[1] Under charter to Wabash RR. Co.
[2] Out of service. License expired Feb. 20, 1953. Certificate of enrollment and license delivered to deputy collector of customs, Muskegon, Mich., Feb. 10, 1953.
[3] These ships rebuilt at Manitowoc, Pere Marquette 22 in 1953 and Pere Marquette 21 in 1954, by installing new engines and boilers and adding 40 feet amidships.

EXHIBIT 2.—*Ann Arbor Railroad Company—Train Ferries*

Name	Year built	Place built	Port of documentation	Overall dimensions	Gross tonnage	Net tonnage	Original cost	Cost of additions	Total cost
Ann Arbor No. 3	1898	Cleveland	Frankfort	318′ x 53′4″ x 18′6″	2,047	935	$301,598	$220,626	$522,224
Ann Arbor No. 5	1910	Toledo	Frankfort	377′9½″ x 57′8″ x 21′	2,988	2,032	352,485	132,839	485,324
Ann Arbor No. 6	1917	Detroit	Frankfort	350′ x 57′8½″ x 20′6″	2,716	1,679	467,291	183,969	651,260
Ann Arbor No. 7	1925	Manitowoc	Frankfort	360′ x 57′9½″ x 21′6″	2,934	1,426	846,719	47,563	894,282
Wabash	192627	Toledo	Frankfort	380′ x 58′3½″ x 21′6″	3,366	2,023	780,000	124,209	904,209

EXHIBIT 3.—*Grand Trunk Western RR. Co.—Train ferries*

Name	Year built	Place built	Port of documentation	Overall dimensions	Gross tonnage	Net tonnage	Original cost	Cost of additions	Total cost
Grand Rapids	1926	Manitowoc	Milwaukee	360′ x 56′11″ x 21′6″	2,942	1,488	$759,608	$54,214	$813,822
Madison	1927	do	do	360′ x 56′11″ x 21′6″	2,942	1,488	764,070	54,303	818,373
Milwaukee	1931	do	do	360′ x 56′11″ x 21′6″	2,942	1,488	721,609	48,344	769,953

EXHIBIT 4.—*Wabash Railroad Company—train ferries**

Name	Year built	Place built	Port of documentation	Overall dimensions	Gross tonnage	Net tonnage	Original cost	Cost of additions	Total cost
Detroit	1904	Detroit	Detroit	308' x 76'10¾" x 20'9"	2,220	1,487	$133,544	$209,964	$343,508
Manitowoc	1926	Manitowoc	do	371'3¼ x 67'3" x 21'6""	3,093	1,391	729,892	67,281	797,173
Windsor	1930	Toledo	do	370'5⁵⁄₁₆" x 65'9¾" x 21'6"	3,131	2,067	707,145	102,394	809,539

*Effective December 21, 1955, Car Ferry Pere Marquette 14 was chartered from the Chesapeake and Ohio Railway and has operated in the service of the Wabash continuously since that time.

EXHIBIT 5.—*The Mackinac Transportation Co.—Train ferries*

Name	Year built	Place built	Port of documentation	Overall dimensions	Gross tonnage	Net tonnage	Original cost	Cost of additions	Total cost
Chief Wawatam	1911	Toledo	St. Ignace	352' x 62' x 18'	2,990	1,793	$389,853	$52,529	$442,383
Sainte Marie	1913	do	do	266' x 62' x 17'6"	2,382	1,620	280,710	23,583	304,293

EXHIBIT 6.—*Railroad cars, passengers, and motor vehicles transported by train ferries, 1951–55*

	Year	Railroad cars	Passengers	Motor vehicles
The Chesapeake & Ohio Ry. Co. (See Note 1)	1951	332,166	124,536	54,619
	1952	224,145	53,820	25,128
	1953	334,338	151,957	71,534
	1954	347,721	133,961	66,421
	1955	383,088	145,862	73,988
The Ann Arbor RR. Co. (See Note 1)	1951	91,943	19,755	7,783
	1952	68,487	8,613	3,778
	1953	87,386	17,878	6,914
	1954	84,289	18,629	7,002
	1955	85,772	21,531	7,937
Wabash RR. Co. (See Note 1)	1951	314,037		
	1952	262,403		
	1953	345,552		
	1954	347,472		
	1955	362,857		
Grand Trunk Western RR. Co. (See Notes 1, 2)	1951	56,195		
	1952	36,903		
	1953	53,254		
	1954	40,390		
	1955	43,004		
The Mackinac Transportation Co. (See Note 3)	1951	53,259		
	1952	49,304		
	1953	36,243		
	1954	31,777		
	1955	33,506		
Grand total 1951–1955		4,105,491	696,542	325,104

NOTE 1.—Lower totals for 1952 reflect interruption of service due to work stoppages during all or parts of July–October of that year.
NOTE 2.—Totals for 1951–53 reflect freight cars handled for Pennsylvania Railroad, discontinued January 1, 1954.
NOTE 3.—On request of the Michigan State Highway Department, these ferries are occasionally used to assist in transporting motor vehicles and passengers across the Straits of Mackinac, such requests usually being confined to summer holidays and the opening of the deer hunting season.

Senator POTTER. What is the average age of the ferries on the Great Lakes?

Mr. WILBER. I don't know what the average is, Senator.

Senator POTTER. I know that some I have seen, I imagine, are quite old.

Mr. WILBER. That is correct. Perhaps, if we gave Mr. Kent an opportunity to comment, he might be able to give us some information on that.

Mr. KENT. I think, Senator, I would not want to attempt to give you the exact figures, but the date that each one was built is included in the first columns, sir, and it is very easy to——

Senator POTTER. When was the last one built?

Mr. KENT. The last one was built in 1953.

Senator POTTER. 1953. Is that the *Ann Arbor?*

Mr. KENT. *Chesapeake and Ohio.*

Senator POTTER. I do know of the valiant service the ferries perform in the straits area as icebreakers and ferry service. Before the states purchased this new icebreaker, they depended upon the car ferries to keep the straits open in wintertime.

Mr. WILBER. That is right. All of the pictures we have happen to be of the *Chesapeake and Ohio.* That is because we were so limited in time we picked up the things that were most convenient. But the type of vessel, the one in the picture, is representative of all of the car ferries on the Lakes.

Senator POTTER. Well, if legislation of this kind is not enacted, are any provisions now being made by the railroads to build any new ferries?

Mr. WILBER. Well, the Ann Arbor has had under consideration the building of another new one. I know the Chesapeake and Ohio has from time to time been considering the possibility of one more. I don't know personally about the rest of the lines.

Senator POTTER. If those ferries are not replaced, if they are worn out, that is a vital link in your railroad transportation system, you either have to go clear around the Lakes or else discontinue service.

Mr. WILBER. Either we replace them as they get worn out or we go out of the car ferry business, one of the two.

Mr. Kent was telling me about some of his experiences, just prior to World War II, in the cruise of these ships in connection with the War Department. I think if you could take a minute, it would be interesting to hear him tell.

Senator POTTER. We will be glad to hear from Mr. Kent.

Mr. KENT. Prior to World War II, we were contacted by the Army, to transport convoys from Ludington to Milwaukee, Milwaukee to Grand Haven, and from Ludington to Manitowoc, in order that they could determine with what speed and how easily they would be able to move full convoys such as ambulances, troop carriers, guns, ammunition, trucks, and all such vehicles that go to make up an Army convoy. We moved 3 or 4 of those westbound and 3 that I recall eastbound for the Army and they, at that time, indicated that the study was made solely because of the possibility of quick movement having to be made in times of emergency.

And for that reason, we were perfectly willing to take the time out to establish whatever could be established of value to them. The net results, of course, the Army did not divulge to us, but we knew they were very well satisfied with the speed in which the units were moved across the lake. They so indicated.

Senator POTTER. How many cars can the average ferry accommodate?

Mr. KENT. Now, when you say "cars," Senator, will you distinguish——

Senator POTTER. I would say boxcars.

Mr. KENT. We think of most of our ships as 30-car ships. That is, we can get in sometimes, 34, 38, 36, if they are small coal cars, and some 40-foots, but, on the whole, considering 50-foot cars, and averaging 30, that is a good average to call them; 30-car boats.

Senator POTTER. You operate on a regular schedule?

Mr. KENT. Yes, sir, very much so. Summer and winter. We pick up where the lower lakers stop, and continue to go on through the winter and summer, too.

Senator POTTER. The construction of all those ships is heavy enough for service in icebreaking?

Mr. KENT. Yes, sir. They have to be to get the American Bureau certificate for ice work and winter work on the Great Lakes.

Senator POTTER. I notice in Mr. Wilber's statement, he mentioned that one ship was modernized here, recently. Have most of the ships been modernized? This one was built in 1912, 1914——

Mr. WILBER. It was 1924. There were two, Pere Marquette 21 and Pere Marquette 22, built in 1924. In 1954, they were taken into yards and they were cut in two in the middle, and 40 feet was put in amidships, and then there were new engines and new boilers installed to bring these ships up to the capacity, to the size of some of the larger ships, so in substance, these are much like the newer ships.

Senator POTTER. Are your new ships constructed on the Great Lakes, in Great Lakes yards?

Mr. WILBER. All constructed on the Great Lakes.

The Pere Marquette 14, Mr. Kent reminds me, was reconstructed, also. That is one of the river ferries.

Senator POTTER. Repowered, too.

Mr. BOURBON. Are all ferries built for that service, or do you have any that have been in other service?

Mr. WILBUR. They are very much built for this service. They are a special type of ship, and they are adapted to this kind of work. That is their purpose and that is it.

Senator POTTER. They carry no other cargo other than the cargo that happens to be within the makeup of the train?

Mr. WILBER. That is right. Some of them also carry passengers, automobiles and trucks, but that is a more or less incidental thing. The primary purpose is the carrying of railroad freight cars.

Mr. BOURBON. What turnaround time do you have in port? How long to unload and get out again?

Mr. KENT. Minimum of 45 minutes and on the average of 1 hour 15 minutes, 1 hour and a half. When we fuel, we expect a turnaround of an hour and a half. It will vary a little bit. But, a good average would be 1 hour 15 minutes.

Senator POTTER. Mr. Wilber, I thank you for presenting this to the committee. I am sure that the committee will go over the amendments that you have suggested, thoughtfully, and see if in any way they can be applied. We recognize your problems are similar problems as far as replacing your ships are concerned.

Mr. WILBER. That is right.

Senator POTTER. The committee record will be open for one week, in case there are additional statements, any rebuttal statements anyone would like to make.

If there are no further witnesses to appear, I will report to the full committee the testimony of the hearing that has just taken place, and we hope that some decision will be made in the very near future.

The committee will stand recessed until the call of the Chair.

(Thereupon, at 3:30 o'clock p. m., the subcommittee was adjourned, subject to the call of the Chair.)

(Subsequently, the appended statement and letters were received for inclusion in the record. They are as follows:)

STATEMENT OF HON. ELFORD A. CEDERBERG, OF MICHIGAN, ON S. 3108

Mr. Chairman and members of the committee, I very much appreciate the opportunity to present a statement on S. 3108, a bill to encourage the construction of modern Great Lakes bulk cargo vessels because as a Member of Congress from the Great Lakes Area I am vitally interested in the future of Great Lakes shipping. I have introduced a similar bill which is now pending before the House Merchant Marine and Fisheries Committee of which I am a member.

Few people realize the magnitude and importance of the Great Lakes bulk cargo fleet. From the standpoint of tonnage carried, employment and invest-

ment, it is a major element in the economy of the Midwest and has contributed immeasurably to the growth and protection of the Nation.

If, in the future, we are to have a strong bulk cargo fleet on the Great Lakes capable of carrying the quantities of iron ore, coal, limestone and grain essential to our expanding industrial economy and the national defense, the need for legislation such as that now being considered is beyond question.

Low-cost Canadian vessels are already driving the United States-flag vessel from the international trade in bulk commodities between the United States and Canada. Once the St. Lawrence Seaway is completed the vessels of all nations will be able to enter this commerce. These vessels will have an even greater advantage, because of their lower costs, than have Canadian vessels.

Because the international traffic in bulk commodities is so closely interwoven with the domestic trades, any use of foreign-flag vessels will have an adverse effect upon United States-flag vessels in any Great Lakes trade. Consequently there can be little expectation that American operators will undertake new construction unless some provision is made whereby they can obtain new vessels at parity with their foreign-flag competitors.

Unless sufficient modern American-flag vessel capacity is available upon the opening of the St. Lawrence Seaway, foreign-flag operators will become entrenched in the traffic between the United States and Canada. It will then be too late. The time to build a modern, efficient Great Lakes fleet is now. The bulk of the Great Lakes fleet is composed of vessels already 50 years or more old. As a sponsor of H. R. 8894, a bill similar to S. 3108, I believe this legislation is necessary to encourage Great Lakes vessel operators to undertake new construction so vitally needed at the present time.

THE CHESAPEAKE AND OHIO RAILWAY CO.

LAW DEPARTMENT

GENERAL MOTORS BUILDING,
Detroit 2, Mich., April 20, 1956.

Re Hearing on S–3108 before the Subcommittee on Merchant Marine and Fisheries, held April 16, 1956.

Mr. AUGUST J. BOURBON,
Senate Interstate and Foreign Commerce Committee,
Washington, D. C.

DEAR MR. BOURBON: At the end of the hearing last Monday, Senator Potter announced that the record would remain open for a week so that any additional material could be furnished. At the time I made my statement, we did not have specific wording to suggest as amendments to S. 3108, the purpose of which would extend the bill to railroad car ferries as well as the bulk carriers.

We have now had an opportunity to prepare such wording, and propose the following changes:

1. On page 2 at line 4, after "ten years" delete the semicolon and add ", or is enrolled but not licensed because of having been withdrawn from service and prior to such withdrawal was so enrolled and licensed for a period of at least ten years;".

2. On page 2 at line 6, after "grain or coal" delete the semicolon and add ", or is a railroad car ferry;".

3. On page 2 at line 6, delete "three thousand" and substitute "two thousand".

4. On page 2 at line 10, after "hereunder" delete the period and add ", or is a railroad car ferry meeting the requirements of the last proviso of Section 27 of the Merchant Marine Act, 1920, as amended (46 U. S. C., sec. 883), and has met such requirements for the last three years immediately prior to the date of acquisition hereunder".

5. On page 2 at line 18, after "Anticosti Island" delete the semicolon and add ", or is a railroad car ferry;".

6. On page 3 at the end of line 6, after "commodity" add "or in the transportation of railroad cars".

7. On page 3 at line 8, delete "the movement of such commodity" and substitute "such transportation".

Item I above becomes necessary because one or more of the ships, having been withdrawn from service, has not had her annual license renewed. While still

enrolled, the vessel is unlicensed at the present time, and without this amendment there might be some question as to whether she is an "obsolete vessel."

Items 2 and 5 are necessary to include railroad car ferries in a description of the trade in which the ships are engaged.

Item 3 provides for a reduction of the gross tonnage requirement from 3,000 tons to 2,000 tons. The necessity for this was pointed out in my statement.

Item 4 is proposed in order to make certain that the Grand Trunk car ferries operating between Muskegon and Milwaukee, and which are qualified under Section 27 of the Merchant Marine Act, will not be disqualified under S. 3108.

Items 6 and 7 are changes similar in nature to those in items 2 and 5 described above.

Copies of this letter are being furnished Mr. Johnson, Counsel for the Lake Carriers Association, and Mr. Prince, General Solicitor of the Association of American Railroads. It seemed to us that these gentlemen were the only ones who might be interested in the above suggestions.

Very truly yours,

GLENN C. WILBER,
Assistant General Counsel.

JOHNSON, BRANAND & JAEGER,
Cleveland, Ohio, April 18, 1956.

Re S. 3108.

Hon. CHARLES E. POTTER,
United States Senate, Washington, D. C.

DEAR SENATOR POTTER: During the hearings on S. 3108 before the Subcommittee on Merchant Marine and Fisheries of the Senate Committee on Interstate and Foreign Commerce, Mr. Gregory Prince, general solicitor, Association of American Railroads, expressed apprehension that the new Great Lakes vessels which would be constructed in part by the trade-in allowance proposed by the bill might engage in trades in competition with railroads. Your interrogation of Mr. Prince developed and he admitted that there would certainly be no competition between such vessels and the rails in the transportation of iron ore and coal.

Limestone could as readily have been included. That commodity is moved directly from the quaries of upper Michigan in vessels to the consuming areas and to lower lake ports. The only limestone transported by the railroads is that which is transshipped from the lower lake ports to the interior plants. If the latter stone were not carried in lake vessels to lower lakes ports it probably would never reach the rails at all.

Mr. Prince left grain as the one bulk commodity which new Great Lakes vessels might carry in competition with the rails. IOn this commodity, too, he seemed to agree with you that the vessel rate was so much less than the rail rate that the natural mode of transportation was by vessel and rail rather than all rail. The water-rail rate from Duluth via Buffalo to the seaboard is now about 20.8 cents per bushel; the all-rail rate is about 33.3 cents. The water-rail saving is thus about 12.5 cents. In practice, the railroads recognize the advantage to them of the economy of vessel transportation in the grain movement, for the railroads move the grain to the upper lake loading ports and many of the elevators in these ports were constructed by the railroads and are still owned and operated by them.

The international trade in grain over the Great Lakes is very considerable. It involves the direct shipments from Canada to the United States, from the United States to Canada, and from the United States to overseas destinations. On the basis of the present commerce projected to the opening of the Seaway, it seems fair to assume that this international trade in grain will amount to not less than 3,500,000 tons per annum. If Great Lakes vessels of United States flag were prohibited from participating in this trade, all grain moving in international commerce would be transported entirely in foreign vessels.

In his statement, Admiral Spencer mentioned the importance to United States vessels of moving grain to the lower St. Lawrence River ports and then proceeding on to Sept Isle for the loading of Quebec-Labrador ore for return to Great Lakes ports. Grain would provide cargo one way and should enable United States Great Lakes vessels better to compete with foreign vessels in the transportation of Quebec-Labrador ore. Without the grain, our vessels might not be able to meet the rate of foreign vessels in the ore trade and so

our vessels would lose out on both commodities. It hardly seems likely that, in view of these facts, anyone would seriously advocate any such abdication to foreign interests within the field of our own international commerce.

Mr. Prince also expressed the fear that the trade-in allowance proposed by the bill would establish precedent for the coastal and intercoastal trades. The commingling of domestic and foreign commerce in the transportation of bulk commodities that is found within the Great Lakes exists nowhere else. The Congress has recognized that important fact on a number of occasions, not the least significant of which is the exemption from economic regulation of Great Lakes bulk transportation contained in section 303(c) of part III of the Interstate Commerce Act.

Both as to vessels and commodities, the Great Lakes are unique. The same vessels that participate in the transportation of bulk commodities in international trade are suitable and desirable for the domestic trade. Each commodity serves the same economic purpose. Thus, for example, the vessel that moves iron ore from Duluth to Buffalo should be suitable for the transportation of Quebec-Labrador ore from Sept Isle to Detroit. Furthermore, the iron ore from the Lake Superior district is equally as suitable for the steel industry as the ore from Quebec-Labrador.

No such factual situation exists in the coastal and intercoastal trades. A vessel, for example, carrying lumber from the west coast to Philadelphia would not structurally be suitable for the transportation of iron ore from Venezuela to Philadelphia and Baltimore; nor do lumber and iron ore serve the same purpose. Furthermore, there is no iron ore moved between coastal or intercoastal ports. There does not seem to be any comparison between the Great Lakes situation and that which pertains in the coastal and intercoastal trades.

At the conclusion of the hearing you stated that the record on S. 3108 would be kept open for one week. It would be appreciated very much if this letter could be included in the record of the hearings on the bill.

Respectfully submitted.

GILBERT R. JOHNSON,
Counsel, Lake Carriers' Association.

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